MAY 1955

The Mortgage Banker

PRESIDENT EISENHOWER MEETS THE COMMITTEE DIRECTING THE VHMCP

MORTGAGE BANKERS ASSOCIATION OF AMERICA
MBA
ORGANIZED 1914

in this issue

HOW SOUND IS THE BOOM IN BUILDING?

OBSOLESCENCE FACTOR IN APPRAISING

LOAN MARKET IN MUTUAL SAVINGS BANKS

1955 MBA Calendar

June 19-25—School of Mortgage Banking, Courses I and II, Northwestern University, Chicago.

June 21-22—Conference for Business School Deans and Selected Staff Members, University of Michigan, Ann Arbor.

July 31-August 6—School of Mortgage Banking, Course I, Stanford University, Stanford, Calif.

October 31-November 3—42nd Annual Convention, Statler Hotel and Biltmore Hotel, Los Angeles.

THIS MONTH'S COVER

VHMCP is rolling, gaining momentum all the time, as President Eisenhower heard when members of the National Voluntary Mortgage Credit Extension Committee administering the program called on him to bring him up to date. More than 1,700 lending institutions have agreed to cooperate in the program—quite an increase from the less than 300 reported by Arthur W. Viner at MBA's Chicago Conference in February.

HHFA Administrator Cole has submitted a report to congress on its operation through March 15 this year, and said the program's future looks bright.

However, only 11 loans actually had been completed by that time. He said 1,879 applications for assistance have been received, more than half of them during the first part of March.

Cole said the lending agencies joining in the program include 131 life insurance companies, 252 mutual saving banks, 388 savings and loan associations, 632 commercial banks and 370 mortgage bankers.

On the cover is the Committee. The President's right hand man is E. R. Haley of Des Moines and peaking over the President's shoulder is W. A. Clarke of Philadelphia. They are MBA's representatives on the national committee.

(A new procedure for VHMCP is announced elsewhere in this issue.)

The Mortgage Banker

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Volume 15 **MAY, 1955** **Number 8**

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NATIONAL HOMES

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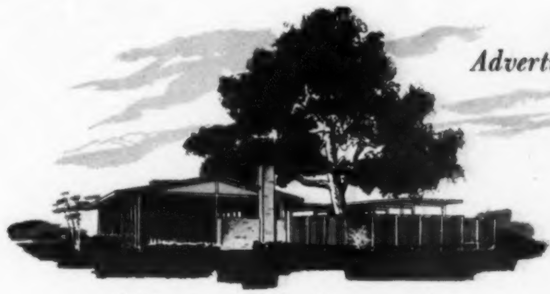

Homes Unlimited

BY JAMES R. PRICE

President, National Homes Corporation

SUPPOSE homes cost far less money. Suppose every family in the nation could afford a home. Suppose no young families had to double up with friends and relatives.

Well, that day is coming. It is coming because of the growing use of factory methods in home building. Assembly-line techniques—which produced better automobiles, refrigerators, and thousands of other products for less money—are today producing better homes for less money. The old, slow, costly, hand methods of conventional building—working on the site, under all kinds of weather conditions—are being more and more replaced by the better, faster, more efficient quality-controlled method of modern U. S. manufacturing.

This better method is not new. Doors have been factory-made and shipped to building sites for many years. So have windows. So have cabinets and all kinds of mill trim. Lumber itself is shaped in the mill and shipped to the site ready for building. But today whole walls, roofs and partitions are being assembled in the factory before being shipped by fast trailer or train to the waiting builder. As a result, he can erect an entire house in a day and complete it in a week or two, if necessary.

> *One company, National Homes, produced better than one in every 48 of the single-family non-farm homes built in America in 1954.*

There are many other advantages. For example, it offers home owners and, therefore, the communities where they build, the advantages of homes designed by nationally-known architects and color-styled by experts.

This is the inevitable home building method of the future. One company alone—National Homes—using this better, more economical manufacturing technique, has produced and sold nearly 75,000 houses.

If you would like further information on this significant building trend, simply write to National Homes Corporation, Box RD, Lafayette, Indiana.

NATIONAL HOME MORTGAGES ARE SOUND LONG-TERM INVESTMENTS

"Homes Unlimited" a liberally illustrated brochure describing our quality-controlled production methods, will be sent to interested investment executives on request. Address: NATIONAL HOMES CORPORATION, Lafayette, Indiana.

The nation's most popular magazine, *Reader's Digest*, has just opened its pages to a limited number of carefully selected advertisers—including National Homes. Our first message, in the May issue, is shown here actual size for easy reading. It contains important facts about home-building trends: facts that make mortgages on National homes even more desirable as sound, long-term investments.

ONE OUT OF EVERY 48 HOMES BEING BUILT IN AMERICA TODAY IS PRODUCED BY.. nh National HOMES

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Trends *and* Developments

• What started out to be nothing more than a "study" of the stock market ended as a forum for discussing many other aspects of current business conditions. Housing and mortgage financing didn't escape; in fact, it appeared at times that this was an investigation of mortgage credit and artificial stimulation of construction through so-called too liberalized terms. Everyone has an opinion about the merit of doing what the government is now doing through FHA and VA. One opinion was expressed in *The Mortgage Banker* last month by George C. Johnson, president of the Dime Savings Bank of Brooklyn. He's not worried. Another opinion was voiced by Dr. Gordon W. McKinley, economist for Prudential—and he is concerned. He thinks the government is making a "serious mistake" in "artificially stimulating" home demand through the small down-payment provisions of the 1954 housing law.

"The day of reckoning in the housing market cannot be put off forever, and I shall be very surprised if it can be put off beyond this year," he said.

He predicted more homes will be started in 1955 than in any other year except for 1950.

Barron's summed it up this way:

"Dangerous to federal solvency, the swelling mortgage debt poses a serious hazard to business stability. Last year loans outstanding on one-to-four-family dwellings climbed by more than $9 billion, to an all-time high of $75 billion and, in 1955, most sources concede, the total is likely to top $85 billion. This bulge in mortgage credit already has had some unfortunate consequences. It has sharply inflated the value of both new and used houses. It has encouraged a wave of nationwide land speculation that in some respects rivals the old Florida boom. Finally, it has stimulated the building trades beyond what seems to many—including some leading bankers and industrialists—the point of safety.

"In recent months, a number of

lenders, notably the more conservative life insurance companies, have moved to stiffen their mortgage terms. They have begun to frown on no-down-payment loans, for example, and, in negotiations with borrowers and builders, are indicating a strong preference for 25- and 20-year home liens over the 30-year variety. Lenders' efforts to tighten up, of course, have been made possible largely by the few small steps in the same direction taken lately by the Treasury and the Federal Reserve. Since the turn of the year the latter, through open market operations, has mopped up some $1.5 billion of bank reserves. By these moves the monetary authorities once more have reaffirmed their disposition to lean, when necessary, against the prevailing economic winds.

"Unfortunately, in the sphere of homebuilding at least, these are now threatening to whip up a gale, and further restraints are clearly called for. Nor is there much doubt as to what form the latter should take. Months ago, the President asked Congress for the power to vary the statutory terms on VA-and FHA-insured home loans. Congress ought to vote it as soon as possible."

It's easy to condemn but sometimes difficult to present a constructive program—if indeed one is needed. Someone who did pin-point just what is needed under present conditions was Marriner S. Eccles before the Fulbright committee. As far as housing and mortgage financing go, Mr. Eccles recommended:

Program:

» More restrictive appraisals in the case of all FHA and GI loans.

» Require not less than 5 per cent down payment, increasing this amount if necessary, and not more than a 25-year maturity on all GI and FHA loans. If this cannot be done by regulation, the needed legislation should be promptly enacted.

» Elimination of the open-end mortgage on FHA and GI loans.

Reasons:

» Housing starts in 1954 were 1,215,000. Estimated starts for 1955 are 1,300,000-1,400,000—this is practically double the estimated family formation.

» Home mortgage debt incurred in 1954 was $9,300,000,000.

›› Growth of mortgage debt exceeding available investment funds, therefore increasing amounts are financed directly or indirectly by commercial banks. This is unsound under present conditions.

"The basic danger of the present housing boom is that while it is the greatest support to the economy it is largely sustained by a rapid growth of debt of the middle and low income group. I believe a point of saturation is fast approaching with serious economic consequences to the whole economy," said Eccles.

Whatever the merits of each argument, the debate around the possibility that we are artificially stimulating home construction through too liberal mortgage credit appears to be just beginning.

EARNINGS WERE BETTER

The net rate of interest earned on invested funds of U.S. life companies rose in 1954 to the highest level in 15 years, although still materially below the level of the 1930s and previous years.

The net rate earned by the life companies in 1954 was 3.46 per cent before federal income taxes and 3.24 per cent after such taxes. This compared with 3.36 per cent before taxes and 3.15 per cent after taxes the year before. The before-tax rate was higher than in any year since 1939 when it was 3.54 per cent; the after-tax rate was higher than in any year since 1942 when it was 3.36 per cent.

"The rise in earning rate on life insurance funds has now been sustained for seven years," Holgar J. Johnson, of the Life Insurance Institute, said. "The 1954 earning rate was about one-fifth larger than at the low point in 1947. Last year's investment income of the country's life companies, before federal income taxes, was approximately $2,750,000,000. This was about $450,000,000 more than would have been earned had the earning rate of seven years ago still applied; however, federal income taxes have increased by some $170,000,000 in these years. The aggregate amount of life insurance in force has increased by 80 per cent in these seven years."

The life insurance earning rate is still well below the average 4.10 per

(Continued on page 14)

THYER HOMES
(formerly known as Pollman Homes)

New! Deluxe Models

Available with

Garage

or Carport

● Looking for something different—some extra appeal for today's "harder-to-sell" home buyer—a way to add more variety to a subdivision or street of homes? The new line of Thyer Homes featuring attached garages or carports are just the answer. Factory-assembled and conventionally built, they are erected as a single unit with the house. The cost of this additional space is low—yet receives liberal valuations from lenders.

If you would like more information about Thyer Homes, with or without garages or carports, write today. We will be glad to send literature or have a representative call.

THYER'S "SILVER PLATTER" PROFIT SYSTEM

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- **TURN-KEY CONTRACTING SERVICE**
  For developers who wish to build 100 or more houses at a time, Thyer can provide a turn-key building service that delivers houses at a bonded contract price. (At present this service is available in all Southern and in most Northern states.)
- **NATIONAL ADVERTISING SUPPORT**
  A hard hitting program in national consumer magazines pre-sells your prospects—helps create buyer interest in Thyer Homes.
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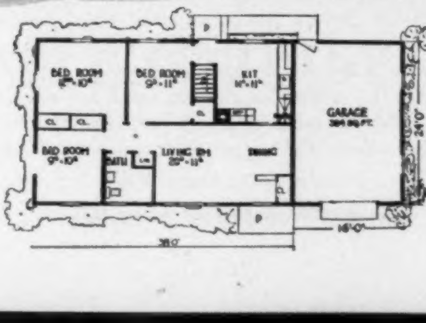
  Thyer fabricated units have been awarded Parents' Magazine Commendation Seal.

Model 2289-B with Garage

One of several (3 bedroom) Thyer Homes available in Northern States only, featuring garage or carport. For information about Thyer Homes designed for Southern and Gulf coast states, write to Jackson, Mississippi.



THE THYER MANUFACTURING CORPORATION

2862 Wayne Street
Toledo, Ohio

515 East Yazoo Street
Dept. 12, Jackson, Mississippi

(Continued from page 12)
cent reported for the 1930s and the 5.07 per cent of the 1920s.

The 1954 improvement in earning rate continued, as in recent years, to be partially a reflection of portfolio shifts, as well as improved interest rates. It was also a cumulative result of new investments made over the past few years. The new investments seldom equal more than one-fifth of total investments outstanding. Consequently, the older investments continue to balance off some of the improvement derived from the current year's new investments. It requires several years for any permanent improvement in interest rates to be registered to any appreciable extent in the over-all earning rate.

THE CHALLENGE TO FHA

FHA in the past twelve months has met the greatest challenge of its history and, through constructive and corrective action, is now giving greater service, declared Commissioner Norman P. Mason in his recent report.

"New blood, new opportunities for service and a new appreciation of responsibilities," said Mr. Mason in an anniversary statement, "have helped FHA to turn the most difficult year of its history into one of major accomplishment."

Mr. Mason said it has been his policy to delegate greater authority to the directors of the 75 FHA field offices. They, he pointed out, are close to the people FHA serves.

"During this year," he continued, "we held the first general meeting of insuring office directors since World War II. I was impressed by the men who, in time of crisis, were willing to assist their government in the important work which FHA does."

Highlights included in his recapitulation of the year:

1. Rapid rise in the purchase of new single-family homes to a near-record level.
2. An all-time record in FHA financing for older homes, placing low-cost housing within the reach of families with small income.
3. Cooperation with industry and consumer groups through special advisory committees which held more than a score of sessions to explore ways FHA might improve its service.
4. Development of a new concept under which FHA gives recognition in its appraisals for quality above the minimum property requirements.
5. Teamwork with builders and lenders, resulting in more housing for members of minority groups than in any previous year.

HOUSING HELP PROPOSED

An Inter-American Mortgage Bank for the purpose of channeling more than $500,000,000 annually from the United States into investment in Latin American housing projects has been proposed by a group of financial men meeting under the auspices of the National Savings & Loan League.

The current plan would be for the proposed bank to hold the mortgages on Latin American housing developments, financing them by the sale of bonds bearing a suggested 3½ per cent. The plan calls for the Treasury to start the mortgage bank off with a "temporary" loan.

GI LOANS 4,000,000

GI loans have passed the $4 billion mark.

More than 53,000 GI loans were closed during February, bringing the total made since the beginning of the GI loan program in 1944 to 4,004,022 loans.

Of the total loans, 3,717,806 were home loans amounting to nearly $27 billion; 218,997 were business loans totaling nearly $600 million, and 67,219 were farm loans for more than $260 million.

VA reported that 20 per cent of the four million loans or 808,804 amounting to nearly $4 billion, have been repaid in full. More than 620,000 were home loans, 39,000 were farm loans and nearly 150,000 were business loans.

The veteran has turned out to be a good credit risk on the whole, the record showing that on only 35,377 loans has the VA paid insured claims. Of this number 21,000 were paid on home loans, or a little over ½ of 1 per cent on the more than 3,700,000 home loans guaranteed.

Claims on farm loans amounted to 2,100 or about 3 per cent of the total and 12,270 on business loans, or 5.6 per cent of the total. Net amount of claims paid to date is $28,200,000 or about one dollar for every $1,000 borrowed and some of this is subject to further recovery through liquidation of securities.

Outstanding

An analysis of amount and character of assets available for protection of policyholders will show Lawyers Title Insurance Corporation to be outstanding in the title insurance field.

STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 1954

ADMITTED ASSETS

	1954
Cash	$ 2,244,295.04
Bonds (at amortized cost):*	
United States Government	$ 3,507,969.49
Municipal	1,472,001.38
Public utility and industrial	452,020.84
	$ 5,431,991.71
Preferred stocks (at lower of cost or current market)	$ 78,375.00
Savings and loan association investment share accounts	$ 309,500.00
Mortgage loans on real estate:	
F.H.A. insured	$ 4,331,597.06
Other first mortgages	61,269.50
VA guaranteed	61,139.15
	$ 4,454,005.71
Interest and rents accrued	$ 63,974.47
Accounts receivable from agents and customers	501,076.54
Notes receivable—secured	452,617.65
Stock of wholly-owned subsidiaries	75,000.00
Title plants (in Akron, Atlanta, Camden, Freehold, Miami, Pontiac, Richmond and Washington)	770,099.47
Real estate for home and branch offices	418,021.47
Other admitted assets	107,956.80
TOTAL ADMITTED ASSETS	$14,906,913.86

LIABILITIES

	1954
Accrued commissions to agents, expenses and other items	$ 273,677.79
Federal taxes on income	1,446,150.07
Other taxes accrued	223,838.47
Premiums and other payments received in advance	423,728.87
Provision for undetermined title losses of which the Corporation has notice	202,503.74
TOTAL	$ 2,569,898.94
Legal reserve	$ 3,282,431.12
Capital stock—par $5 a share	$ 3,500,000.00
Voluntary policy reserve	2,192,301.44
Surplus	3,362,282.36
TOTAL CAPITAL STOCK, VOLUNTARY POLICY RESERVE AND SURPLUS	$ 9,054,583.80
TOTAL CAPITAL STOCK, SURPLUS AND RESERVES	$12,337,014.92
	$14,906,913.86

*Bonds stated at $1,266,119.86 at December 31, 1954, were on deposit with various states for the protection of policyholders as required or permitted by law.

The Corporation has segregated and deposited in a separate bank account the sum of $36,396.68 as the re-insurance reserve fund required under the Insurance Law of the State of New York.

SETTLEMENT AND ESCROW FUNDS

The Corporation had on deposit in separate bank accounts additional funds of $3,515,729.06 at December 31, 1954, covering undisbursed amounts received for settlements of real estate loans or sales in process for customers.

Lawyers Title Insurance Corporation

Home Office ~ Richmond, Virginia

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Akron, O.	Dayton, O.	Pontiac, Mich.
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Augusta, Ga.	Detroit, Mich.	Roanoke, Va.
Birmingham, Ala.	Freehold, N. J.	Savannah, Ga.
Camden, N. J.	Miami, Fla.	Springfield, Ill.
Chicago, Ill.	Newark, N. J.	Washington, D. C.
Cincinnati, O.	New Orleans, La.	White Plains, N. Y.
Cleveland, O.	Newport News, Va.	Wilmington, Del.
Columbus, Ga.	New York, N. Y.	Winston-Salem, N. C.
Columbus, O.	Norfolk, Va.	Winter Haven, Fla.
Dallas, Tex.	Pittsburgh, Pa.	

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THE CASE FOR THE SOUNDNESS OF OUR UPSURGE IN HOME BUILDING

Today, with construction and the financing of construction at record peaks, dissatisfactions are rife. Builders, government officials and lenders have fears of one sort or another. What's the other side of the story? Here's the case for Confidence in 1955

IT SEEMS that no one is ever fully satisfied with the state of the mortgage market. When the supply of money is ample—and to some it always appears excessive—we are endangering the economy by promoting an oversupply of houses. When money gets a little tight—and to some it is never too easy—then we imperil the economy by threatening to cut down construction.

Miles L. Colean

Right now nearly everyone seems dissatisfied with the state of things. Home-builders fear the possibility of credit restrictions that will contain their volume. Others fear it won't be contained, but rather that our continued building beyond the currently low level of net new household formation is leading to clear and certain disaster. Marriner Eccles, for example, recently cited the current home-building boom as a "real danger" to economic stability and deplored the rapid growth of debt especially in the middle and low income groups. Yet government policy, in which Mr. Eccles formerly was an active participant, has for years been aimed directly at the low and middle income market—one which hardly could be served without increasing debt among those provided for. At the same time, others complain that the home-building industry is failing to serve families with medium and low incomes and that a major public housing operation is the only solution.

Just now most of the alarms come from those who fear that building and lending are getting out of hand and, as Mr. Eccles put it, that "a point of saturation is fast approaching with serious economic consequences to the whole economy." I believe it will be worth-while to take as cold a look as we can at the situation to see who should be scared by whom and what the basis, if any, for scare may be.

So far as our statistics are concerned—and they lack the validity of holy writ despite the faith imposed in them—we started a total of around 4.8 million houses from March 1950 to April 1954. During that period the number of non-farm households increased 3.9 million. The difference of around 900,000 represents an excess of supply over the primary source

By **MILES L. COLEAN**

"The question of whether mortgage credit is too easy or too tight cannot be answered except in the light of its effect on the current housing market," says Mr. Colean. "Comparisons with the 1920s are not too meaningful. Concern over the mere fact that home mortgage debt today is at about the same level in relation to both personal and national income as it was in the ominous year 1930 ignores the vast changes in the characteristics of the debt as well as in the distribution of income. The headshakings over the low and no down payment financing which is available today—on a much lesser scale, it may be said, than some are eager to believe—ignore the fact that in the 1920s we also had low or no down payment financing but of a different and much more dangerous kind."

of demand, and, taken at face value, is readily interpreted as a top-heavy situation, especially when it is noted that "doubling up" is much below any ratio reached in the past. At the same time, we are entering a year with a "seasonally adjusted annual rate" of new building close to 1.4 million, while the total added number of new households may not be more than five or six hundred thousand. Hence, so it is feared, oversupply is being poured on oversupply.

From this disturbing specter, the alarmists turn to the fact that home mortgage debt is at an all-time high, and certainly it is. At the end of 1954, non-farm home mortgage debt stood at $75.6 billion, about four times the total reached during the peak of the 1920s. Moreover, the debt will mount by about $10 billion during the present year. So again, it is pointed out, excess is being added to excess, saturation is imminent, and, after that, the pessimists shudder to look.

These circumstances — a supposed oversupply or threatened oversupply of houses and an excessive load of debt—are the bases for present concern. How solid are these bases? Let's take a look, first, at the question of demand and then at the question of debt.

At least these facts about the housing market seem clear:

» That the houses are being sold without undue delay.

» That builders generally expect to build more houses and mortgage lenders expect to lend more money in 1955 than in 1954.

» That more families intend to buy houses in 1955 than expressed an intention to buy in 1954. Vacancies, so far as anyone can tell, are at a lower ratio than what before the postwar jam was considered normal.

These conditions alone quiet the alarm, at least for the time being. However, there are other, more substantial reasons for taking heart. Of top importance among these is the new light on the question of family formation shed by a recently published report of the Department of Commerce.

According to this study, which appears in the March issue of the *Survey of Current Business*, more than half of the total number of non-farm families (excluding independent individuals) now have annual incomes of $5,000 or *more*. As late as 1951, about 55 per cent of all non-farm families had incomes of *less* than $5,000 a year.

From 1951 through 1953, the number of families in the $5,000 or over range increased by over 1.5 million a year, while the number in the below $5,000 range decreased. More than this, if the income range is broken down by intervals of from $1,000 to $2,500, a decrease took place in every interval below $5,000 and an increase took place in every interval above $5,000.

Thus, from the very bottom of the scale to the top, there has been an upgrading. Thus, despite a probable low rate in the increase in the total number of families (perhaps as few as five or six hundred thousand a year), we have had, and continue to have, a very large increase in the number of families whose income can make their demands effective. Growth is now concentrated among families who want something better than they have and can afford to have it.

This is a tremendous force for sustaining demand. In large part it accounts for the fact that 1,200,000 new houses could be sold or rented last year and that the same or somewhat larger number may be successfully marketed in 1955.

It doesn't, however, explain how this could be done without leaving behind a very large number of vacancies. Until the census completes a survey of residential vacancy which it is just now getting under way, the explanation must involve some surmises. What appears to be happening is:

The Forces Sustaining Building Volume

» Hundreds of thousands of so-called conversions made during the first postwar years, being no longer in demand, have simply been withdrawn from the market by abandonment or reconversion, leaving no visible vacancy.

» The rate of demolition has been spectacularly stepped up as a result of urban highway building and, to a lesser extent, of urban redevelopment operations.

» Stricter enforcement of safety and sanitation measures has been another cause for withdrawal and demolition of many houses in the lower end of the supply. As a result, the supply so far has been kept fairly taut, so that there is as yet no overhang of low-valued or distressed property to threaten the stability of the market.

Other sustaining forces may be noted. Probably at least a million families a year move substantial distances; and the typical move is from a relatively static area to a growing area, where a more than average amount of the housing supply must come from new houses. The current high rate of births, especially of second, third, and fourth children, adds a sharp spur to demand, especially when accompanied by an improvement in income. Many older couples, whose nominal incomes may be low, are with the help of annuities and savings able to sustain a satisfactory standard of living (30 per cent of the heads of households in the lowest fifth of the income range were 65 or more years old in 1952). In addition to the family market, better than 5.5 million unattached persons maintain their own households, a source of demand that has remained fairly constant over the past several years.

It can be assumed that as long as the economy is expanding at a rate more or less comparable to the average of the postwar years, a strong housing demand will exist. Moreover, as last year's experience seemed to demonstrate, the market, supported and protected as it is by unemployment insurance, pensions, a large volume of liquid savings and regularly amortized debt, can endure at least a short term decline in business activity. Whether such favorable conditions as we have become accustomed to will prevail indefinitely is a question beyond my ability to answer. But I am clear about one thing; we won't prevent a depression by arbitrarily cutting the volume of building below demand.

Perhaps true, comes the cautionary reply, but isn't present demand a demand that is being arbitrarily pumped

up by easy credit? Are we not building a mortgage structure on such weak foundations that an economic gale would send it crashing? The answer to both questions is, I believe, that it isn't necessarily so.

For one thing, easy credit isn't easy to define. Was credit easy a year ago? A good many borrowers would say it wasn't and that it hadn't been for quite a number of months. Is credit easy now? For borrowers who want 100 per cent loans for 30 years, it is getting to have a tight look. Was mortgage credit easy in the 1920s? We are accustomed to think so, yet money in that period was greatly more costly than in the most stringent times since World War II.

The question of whether mortgage credit is too easy or too tight cannot be answered except in the light of its effect on the current housing market. Comparisons with the 1920s are not too meaningful. Concern over the mere fact that home mortgage debt today is at about the same level in relation to both personal and national income as it was in the ominous year 1930 ignores the vast changes in the characteristics of the debt as well as in the distribution of income. The headshakings over the low and no down payment financing which is available today—on a much lesser scale, it may be said, than some are eager to believe—ignore the fact that in the 1920s we also had low or no down payment financing but of a different and much more dangerous kind.

Those who worry about the burden of payments from the present debt level forget that, on the whole, people are paying about 20 per cent less, in relation to their disposable personal income, for housing costs, including debt charges, than in the late 1920s. Finally, comfort may be taken from the fact that the current expansion is not complicated by a speculative apartment building boom or threatened overbuilding of factories and office buildings.

Today, less than 10 per cent of the new dwelling units are being built directly for rent and probably under 8 per cent are in large apartment structures. In the late 1920s, the ratio of rental units got up to almost 40 per cent and continued to flood the market for 3 years after a decline in home-building had set in. Our postwar apartment era — certainly no more generously financed than that characterized by the mortgage bond schemes of the 1920s—was safely put to bed at least four years ago.

Today, office building construction has yet to catch up with the obsolescence accumulated during the 20 years of almost unrelieved doldrums in this area. Factory construction passed its postwar peak several years ago and is again gathering strength in face of the certain demands for plant and equipment that can be foreseen for the next decade. The building part of the economy as a whole is certainly without speculative excesses.

No Helter Skelter Building Going On

But to get back to the housing situation. A good many people seem to think that builders build as long as lenders lend and that lenders lend so long as they have money, irrespective of other conditions. That of course isn't so and it certainly isn't what is happening today.

Most builders watch their markets very closely. While they may not spend a lot of time in occult economic analysis, they know that slow sales mean trouble. Irrespective of what the uninformed may say, there is still a lot of risk in the building business; and the builder doesn't want to be caught with a row of unsold houses. Builders are trying to avoid that contingency today, and from all accounts are avoiding it pretty well. Production generally appears to be geared pretty closely to sales contracts.

If builders were inclined to court disaster, or even to assume that an FHA firm commitment would get them out whole, their lenders would not be inclined to connive in the catastrophe. Lenders also watch markets, often much too closely and apprehensively, according to some of their critics. At least I have never known lenders as a group to be indulgent in the vice of over-optimism. Lenders don't like foreclosures, irrespective of the protection they get from mortgage insurance and guarantees, and they will not indifferently make loans where they see the chances weighted on the side of default.

It is heartening also to read that the government agencies, too, are watching the market—or rather the numerous local markets that make up the heterogeneous total. This is as it should be, and the mere evidence that it is being done should breed confidence rather than fear. Moreover, since the supply and demand for housing are strictly local phenomena, it is gratifying to see government policy directed to specific situations rather than applied indiscriminately at the market as a whole irrespective of the strength or weakness of individual circumstances.

I do not expect the rate of housebuilding estimated for the first quarter of the year to continue. The extraordinarily high rates prevailing since the latter part of 1954 have been the result of a combination of favorable circumstances: the cumulative effect of policies followed by the fiscal and monetary authorities since mid-1953, a stable price situation, ample supplies of materials, improvements in the style and quality of the product, aggressive salesmanship, rising income, renewed confidence in the future, and a relatively dry and moderate winter, particularly in the early part of the season.

The present rate of activity seems to be producing some brakes of its own. The prices of some of the commonest materials, such as lumber, brick, cement and paint, have stiffened. The supply of a number of other materials such as steel, gypsum and roofing and flooring materials has been pushed to the point of allocation and deferred delivery. Plumbing equipment manufacturers are producing up to capacity limits. Mortgage money itself has become noticeably tighter than it was during most of 1954. All this is tending to increase the caution exercised by buyers, builders and lenders.

Again, I cannot see why these movements should be productive of concern—although I expect that even a slight decline from the present rate of activity will start a wave of another sort of alarm. As I said at the

(Continued on page 26)

IT WILL TAPER OFF BUT HOUSING DEMAND WILL BE STRONG

By GEORGE CLINE SMITH
Economist of F. W. Dodge Corporation

LAST year the nation had something of a business slide. It was a rather peculiar affair which began in the best business year in our history and plunged us all the way down to the second best. But during this reluctant recession, the construction industry went along setting new record after new record. Nearly every analyst who has given this strange state of affairs a backward glance has credited construction with having prevented the slide from being worse than it was; and most also say that the industry played a vital part in converting the downturn into an upturn. This isn't at all unreasonable, because construction, running at about $50 billion a year, is by far our largest processing industry; and what happens in construction can't help but fan out through the rest of the economy like ripples in a pond.

G. C. Smith

Now that the general recovery is a fact, however, there are those who, with perhaps a touch of ingratitude, look on construction as a budding delinquent. Things are just too good to suit them.

Lately we have heard our present construction prosperity referred to as "the building boom." I think this catch phrase is a mistake. To me, a boom is a speculative over-expansion which is followed by a bust—the sort of thing that happened in the 1920's.

If we compare what every one will agree was such a boom, in the peak years of 1926 and 1927, we find a world of difference from the present situation. It is true that in dollar terms, we are building about three times as much as we did then. But the dollar is a rubber yardstick, and it is a far smaller thing now than it was in the 1920's. That's the first big difference.

The second difference is that the country has grown enormously in the past thirty years, and a bigger country just naturally ought to build more.

A third difference is that public construction, which is non-speculative, is a bigger share of the total than it was in the 1920's.

To draw a fair comparison, we can take private construction outlays, the area most subject to possible speculative dangers, deflate these outlays by using an index of construction costs, and then adjust for the growth of the country by putting them on a per capita basis.

If we do this, we will have a comparison of private construction per

capita in constant dollars; and having done it, we find that today's volume of private construction is approximately three-fourths as high as the 1926 peak.

As a check on this line of thought, we could also compare private construction spending with the total output of the economy, which is commonly known as gross national product or GNP. In the peak years of the 1920's, private construction was equivalent to about 13 per cent of GNP; in 1954, it was barely 7 per cent.

In short, to the question, "How long can this construction boom last?" I would have to reply, "What boom?"

The real question is, "Are we building enough?" There's considerable evidence that in at least some lines, like schools and highways, we aren't coming close to meeting current needs, not to mention accumulated backlogs.

The foundation of the construction industry is the demand for building. To judge whether that foundation is solid or not, we must begin at the beginning with the question, "Why do we build?"

Everyone is familiar with the common division of manufactured items into consumer goods and producer goods. I believe that exactly the same distinction can be made for most types of construction, although the concept may seem a little unfamiliar at first.

Some buildings are truly end products. They themselves satisfy a need. They are used directly by the ultimate consumer. Homes provide shelter; schools provide education; churches fill a spiritual need; hospitals provide physical care. These and similar buildings I would call consumer types.

Other buildings are part of the productive process. They are used in making and distributing other goods and services that are desired by people. Factories, utilities, stores and offices are producer buildings, rather than consumer buildings.

But whether the demand for a building is direct, as in the case of a home providing shelter directly to a family, or indirect, as in the case of an automobile factory to produce a car desired by the same family, there is one basic underlying fact: the demand for buildings rests upon (1) people; and (2) their incomes (modified by their decisions as to what portion of their incomes they will allocate to saving or to spending on various things). One could almost summarize the whole thing in a mathematical formula: construction demand is the product of the number of people times the purchasing power they are able and willing to put into construction.

This simple formula doesn't make construction forecasting easy, but it does help to explain the brass tacks of the industry. If we take refuge in the old phrase that has gotten many an economist out of a tight spot, all other things being equal, more people with more money will mean more construction. This seems obvious, but it is surprising how often we overlook this simple fact.

Applying the formula to the question of what's ahead for construction, we can come up with the first part—people—very handily.

This country is growing, in absolute numbers, faster than it ever has before. Last year set a new record for babies born; and when deaths and immigration are taken into account, 1954 also was a record year for net increase in population.

Our population is now climbing at a rate of about 2,800,000 persons a year. At the current rate, we are adding the equivalent of the entire Chicago metropolitan area, suburbs and all, every two years.

During this present decade of the 1950's, the population of the United States will rise by about 24 million. That is equivalent to annexing the entire population of Canada and Cuba, with a good bit of Central America thrown in, in ten short years.

Consider the size of the market we are adding—Chicago every two years, Canada and Cuba every ten. That's a market for the consumer types of construction, directly, because these people must be housed and cared for and taught; and since these new citizens will demand more and better goods (and so will the other 163 million of us already here) there will be a market for factories, stores, utilities and other types of producers' construction.

So much for people. How about the second factor, money?

That, too, is fairly simple. In spite of last year's peculiar recession—which dropped us all the way from the best year in our history to the second best—the take-home pay of the public remained high. (That's an understatement. Actually, disposable personal income of Americans in that recession year was $253 billion, a new all time record. Every bit of evidence at present points to another new record for this year.)

With incomes and population growth at an all time high last year, we shouldn't wonder that 1954 was also a peak year for construction. New records will almost certainly be set for all three of these highly important economic factors again in 1955.

So far we have been talking about construction in general; and what happens to the whole won't necessarily be true of any one of its parts, at least in the short run. The construction industry may be compared to a large manufacturing concern putting out a variety of products. Like the manufacturer, construction has a product-mix which it varies in response to changes in demand. There have been some significant changes in product-mix in the past few years, and more changes are in store.

Of course the present abnormally high rate of housing construction won't continue indefinitely—and is there anyone who thought that it might? But the basic reasons for believing that construction will still remain at a high level are sound, and Mr. Smith cites them here.

Too often we tend to assume that housing *is* construction, neglecting the fact that the largest part of the industry is non-residential; nonetheless, residential building is about a third of the total.

Residential building is now at an extremely high rate.

The year 1950 was the peak housing year in terms of units started. This year we will probably set a new record—but the composition of the housing output this year will be radically different.

First, all the emphasis in the residential field today is on single-family homes. It is hardly an over-statement to say that the bottom has dropped out of the multi-family field in recent months. During most of the postwar period, according to our Dodge contract award figures, multiple dwellings have accounted for some 25 to 30 per cent of all residential floor area built. But in the past year, this figure has dropped to 9 per cent; and the trend is even more evident in the early reports for 1955.

It will be worth exploring, for a moment, the reason for the sharp shift toward one-family homes—which is also a shift toward home ownership instead of renting.

Housing Act a Stimulant

Obviously, financial considerations are important. Prosperity, high incomes and relatively easy credit have made it possible for more people to own homes than ever before. At least some of the stimulus to the current rash of housing starts can be traced directly to the more liberal terms provided by the Housing Act of 1954.

But ability to buy—whether it is based on cash position or credit availability, or both—is just a permissive factor. Simply being able to buy something isn't enough—there must be reasons why people buy. If prosperity alone were sufficient, the market for raccoon coats and tandem bicycles should be booming now. But people today don't want raccoon coats and tandem bicycles.

In our preoccupation with the financial situation—a permissive, but non-casual factor—we often overlook important changes taking place in the basic background demand for housing, which explain much of the current emphasis on single-family, owner-occupied homes.

Unquestionably, the most important of these changes has been in the relative cost of renting versus owning. Studies by the Bureau of Labor Statistics reveal that the monthly out-of-pocket costs of home ownership are lower than rentals on similar property in most large cities. This study ignored the fact that a large share of monthly mortgage payments goes into equity; and when this factor is added in, the cash advantage of owning over renting becomes even more pronounced. High income tax rates play an important part in this situation, especially in the middle and upper income groups where tax-deductibility is a sizable offset to interest charges and property taxes.

Another change often overlooked is the age factor. The highest pro-

portion of home ownership is found in the older age groups, and the aged make up the fastest growing segment of the population, percentagewise. It is apparent that the spread of amortized mortgages has had a lot to do with the higher proportion of home ownership among older people. The improved financial position of the aged, with the spread of pension plans and the establishment of social security, also plays a part.

At the other end of the age scale, we find another important reason back of the emphasis on single-family homes. A family with children is much more likely to want and be willing to invest in a single-family home than a childless family; and the more children a family has, the more likely this is to be true. The four million children born last year, setting a new record, explain much of the single-family housing demand. Families are also becoming noticeably larger than they have been in recent decades.

I suspect that the growth of home entertainment and the contagious virus of the do-it-yourself movement explain much of the demand for single-family homes. The shorter work-week and the growth of leisure time play their part. To entertain at home, to make and do things at home, means emphasis on houses, and particularly on owner-occupied houses.

Trend to Larger Houses

In addition to this trend toward one-family homes, a second important change has been toward bigger houses. It has been estimated that the average floor area of houses has jumped 5 per cent since 1951; and the Veterans Administration has reported a substantial increase in the proportion of GI homes in the over-$10,000 bracket. Back of this trend are probably two factors—availability of financing and the pressure of more children per family.

We are building houses at a tremendous clip. Non-farm dwelling units have been started in the past few months at annual rates up to almost a million and a half a year. Our Dodge contract award figures for January and February indicate that these high levels will continue at least for a few months.

Can we sustain this rate indefinitely? I rather doubt it. I would expect some tapering off in the rate of starts and contracts later this year.

But will that be disastrous? I doubt that, too. There may be periods and places where housing will remain unoccupied longer than the builders or owners would like. But, in general, and over the long run, the demand for housing in this country will remain strong.

Much is heard about the fact that new household formations today equal only about half the number of new housing units started. A household, by definition, equals one occupied dwelling unit; thus, the argument runs, if we build a million new units, and only form half a million new

households, half a million new dwelling units will remain unoccupied.

This just isn't so, because much of the demand for new housing comes from old households—the ones with growing numbers of children or with rising incomes or accumulated savings. Obviously, if we add to our stock of homes more than we add to households, there will be vacancies, but not necessarily in the new housing.

In this connection, we must keep in mind two facts: first, a substantial number of dwelling units are destroyed each year, although we have practically no statistics on how many; and, second, a sizable number of those which are not destroyed are so substandard that they should be torn down. Vacancies in this type of housing would be highly desirable. If we built as many as 300,000 units a year for replacement only, we would replace our present stock of housing only once in 150 years—and obviously, a lot of our housing isn't built to last that long.

It is true that net new household formation is at a low ebb right now. This reflects the low point in births reached in the depression some 22 years ago. From here on, we can expect a gradual rise in household formations for a few years, and beginning about 1961, a tremendous upsurge to heights never before known. During this coming five-year period, I would expect housing demand to be sustained, not at a million and a half a year, but certainly well over a million, by all of the factors I have mentioned.

I would expect to find some local problems, some temporary gluts and vacancies, especially in rental properties in some localities. I would expect credit to remain available on relatively easy terms. But I don't believe, and I can't find any other construction economist who believes, that we are facing a boom-and-bust situation in housing so long as the rest of the economy remains prosperous—as it apparently will remain.

Certainly, the construction industry will contribute its share to the general prosperity in 1955.

School building, which now accounts for nearly a third of all nonresidential building, will set new records this year and in years to come. The number of children in every grade will continue to increase at least through 1960. The children who will enter school in the next five years are already born, so this isn't speculation.

Other Strong Demands

Other community buildings which, like schools, follow the trends of growth and movement of population, will behave in a similar fashion. These include hospitals, churches, public buildings, and social and recreational facilities. Never underestimate the importance of this group. In 1954, for the first time, these community buildings (including schools) totaled more than half of all nonresidential, exceeding industrial and commercial building combined.

Public utilities will respond to the same demand factors.

Commercial and industrial buildings, being producer types, are bound to respond to the demand pressures of a growing and more prosperous population. There is one important footnote, however. During and after the Korean War, industrial facilties apparently reached a temporary saturation point; they were the only major construction category (other than apartments) to show a drop in the record year of 1954. Industrial plans indicate a continued drop this year, to a relatively low point. But, with demand pressures increasing, this type of building should begin to show an upturn before long. Commercial buildings respond more directly to population growth and movement, and should set a new record in 1955.

Highway needs are obvious. The number of cars has approximately doubled in the past ten years; our highways are woefully far behind. Probably for as far as we can see into the future, we will witness high levels of highway building.

The basic demand for building is good, and promises to stay that way.

As condensed from Mr. Cline's text at ABA's savings and mortgage conference in New York.

The Market for Mortgages in the Mutual Savings Banks

By **EARL B. SCHWULST**
President, The Bowery Savings Bank, New York

SINCE 1950 the mutual savings banks have increased their mortgage holdings from approximately \$8 billion, or 36 per cent of assets, to nearly \$15 billion, or 51 per cent of assets at the end of 1954. It would seem entirely safe for savings banks to carry from 60 per cent to 65 per cent of their assets in mortgages, especially if a substantial portion of those mortgages are insured by the FHA or guaranteed by VA. To bring existing portfolios up to 60 per cent of assets would require, as of now, an additional \$3½ to \$4 billion of mortgages; and to bring the portfolio up to 65 per cent would require, as of now, an additional \$4½ to \$5 billion of mortgages. With a normal rate of increase in assets and a normal liquidation and payoff in the existing portfolios, these banks would be required to invest from \$3 billion to \$4 billion a year in mortgages.

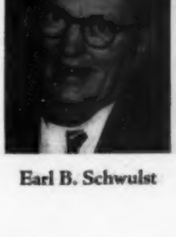
It is apparent, then, that the savings banks offer an inviting market for mortgages if the economy needs the housing and the other construction available for mortgage financing. I have no doubt that if we can keep our economy running along on its present even keel, with substantially full employment, we shall continue to need a tremendous amount of building and housing construction of all kinds. And this notwithstanding the fact that housing starts at present are running considerably ahead of the rate of family formation. We have a tremendous backlog of slums to be dealt with and a tremendous amount of otherwise obsolete housing that ought to be replaced with new and better housing.

It is obvious, however, from the relative increase of mortgages as a percentage of savings banks assets that quite a number of the banks have completed the operation of getting out of the top-heavy investment in government bonds which they had at the end of World War II and that, progressively, their participation in the mortgage market will be confined to replacing amortization and payoffs and the investment of the proper proportion of the annual increase in their deposits. This means that the savings banks, as a whole, will probably not be quite as aggressive a factor in the mortgage market in the future as they have been in the years just past.

The fact that most mortgage loans in savings banks are amortized is placing them in a position to make forward commitments against anticipated payoffs. I am informed that forward commitments of the mutual savings banks are at an all time high. The ability to make forward commitments is very helpful to mortgage originators and to builders, because they can count well in advance upon a certain minimum amount of mortgage money that will be made available to them from these banks. The Bowery, for instance, commits ahead for as long as eighteen months, and a number of our mortgage originators are placed upon what we call a mortgage budget arrangement. This involves our committing a certain sum of mortgage money to the specific mortgage originator each quarter, the mortgages under the commitment to be delivered within a period of from twelve to eighteen months—which easily covers the period of construction.

We have also developed with a group of banks in New York a central warehousing pool which has been found useful to a number of our originators. This arrangement supplements, sometimes in very marked degree, the lines of credit which these originators obtain locally, and it speeds up the process of delivering mortgages by the originator after the houses are completed and sold. He does not have to wait for a call from

The mutual savings banks continue to be heavy buyers of mortgage loans and will continue to be "if," as Mr. Schwulst observes, "the economy needs the housing and other construction available for mortgage financing." But why, he asks, haven't life companies invested in mortgages on the same basis? It cannot be, in his opinion, that there is a greater need for liquidity—"I should think their need for liquidity would be considerably less." As to interest rates, in the near-term there may be some tendency toward a slightly greater firming up than we have recently seen.



Earl B. Schwulst

us before delivering his mortgages. As soon as they are ready, he sends them up to New York where all the papers are examined by counsel for the warehousing pool, and then the mortgages go directly into the pool and the originator gets his money. Counsel for the pool is also counsel for our bank. Much time is saved in the examination of papers, because the examination is actually completed long before the Bowery is ready to take the mortgages into its own portfolio.

Life Company Loans

The pool also serves a very useful purpose, particularly from the Bowery's standpoint, in that it promotes an even flow of mortgages into the Bowery's portfolio. The flow of funds into the Bowery naturally fluctuates from time to time, and sometimes widely, because of influences over which the Bowery has no control. When funds become temporarily scarce for some reason, the mortgages which the Bowery is committed to purchase can pile up in the pool. When the Bowery happens to be unusually flush with funds, the level of the mortgages in the pool drops because the Bowery can increase its "take" from the pool.

Thus, this pooling arrangement works very much to the advantage of mortgage originators, builders and The Bowery Savings Bank. It makes the whole process of financing the construction and sale of homes much smoother, much more steady, and much more dependable.

The latest figures I have show that the life insurance companies have only 31 per cent of their assets invested in mortgages. I have never understood why a life insurance company stands in any greater need of liquidity than does a mutual savings bank. I should think its need for liquidity would be considerably less. I am wondering if the life insurance companies have not overlooked an opportunity to invest much more substantially in home mortgages insured by FHA or guaranteed by VA. If those companies were to invest 60 per cent of their existing assets in mortgages, they would represent a market, as of now, for an additional $25 billion of mortgages, and, of course, their replacement requirements and new investment requirements to maintain that percentage would run into a goodly number of billions of dollars a year.

With some lag, mortgage rates tend to maintain a certain relationship with long-term money rates as measured by the yield on long-term government bonds. The yield on long-term government bonds is influenced by the relationship between the supply of and demand for long-term investment funds, or savings, and it is also influenced by the fiscal policies of the government and by the credit policies of the Federal Reserve System. For some time now, Treasury and Reserve policies have favored a firming tendency in the long-term interest rate. This has been made possible by the fact that the government has not had to resort to an effective inflation of the currency in order to meet heavy budgetary deficits. It has been due also to some feeling of concern on the part of the Treasury and the Federal Reserve authorities that the economy may have been expanding at a little too rapid a rate and that a somewhat higher cost of credit would keep things under better control. This has been observed over the past year in a drop in government bond prices and an increase in interest rates all along the line. It would not be surprising if this trend continued in at least some small degree. Moreover, there has been a heavy demand in our busy and prosperous economy for long-term funds.

U. S. Won't Interfere

I doubt that the Treasury or the Reserve authorities will do anything to check the pace of the economy so suddenly or so drastically as to cause any real let-down in business or any substantial amount of unemployment.

I believe that the interest rate picture may show, for the near-term future, some tendency toward a slightly greater firming-up in interest rates. This may mean that mortgage lenders may have to reconcile themselves to perhaps a little larger discount on the mortgages they have to sell. I don't think this trend is likely to be unduly marked.

The Bowery, like most large investment institutions with a continuously heavy inflow of funds to invest, tries to keep itself fully invested and does not pay too much attention to the interest rate trend. If the mortgage rate remains out of line with that trend for any considerable period of time, the Bowery, like the other institutions, will favor securities. On the other hand, if the yield on securities remains out of line with the trend, the Bowery and those institutions will favor mortgages. Generally, the various forms of investment stay pretty much in line with each other, and, in general, the investment institutions can follow pretty closely whatever program they have set for themselves with respect to the proportion of assets which they try to keep invested in the various types of investment—mortgages, corporate securities and government bonds.

ACCORDING TO COLEAN

(Continued from page 19)

outset, no one ever seems to feel easy about the state of the mortgage market. Rather, I think we should be gratified to see the forces of the market place at work and to see the private enterprise system showing signs of being able to accomplish its own adjustments.

I do not foresee that these adjustments will be serious. Competition is too keen, from materials manufacturer to distributer to builder, to permit a marked price rise. And if this were not so, the bargaining habit that the buying public has got itself into, despite its rising income, would help to hold it in line. The money supply too is sufficiently ample to prevent a real shortage of funds or an unsettling rise in interest rates. In short, the adjustments that appear even now to be in process are of a tempering and moderating rather than a sharp or disruptive sort.

The year will undoubtedly end with a new record high in the volume of home mortgages and a new record high in the amount of expenditure for home construction. But it will fall short of the record number of new dwelling units started by perhaps as much as 100,000. All in all it should be a good year, a year of steady activity, and a year of satisfactory progress in the improvement of the living standards of our people.

CONVENTIONALS
VERSUS
FHA'S and VA's

MORE PROFITS *for You by Making More* CONVENTIONAL LOANS

By **DALE M. THOMPSON**

President, City Bond and Mortgage Co., Kansas City, Mo.

CONVENTIONAL loans—are they the mortgage banker's salvation? If so, must we as mortgage bankers choose between making FHA and GI loans on the one hand and conventional loans on the other? Is our salvation as mortgage bankers dependent upon our total avoidance of FHA and GI loans and our exclusive attention to conventionals?

Not at all. We all recognize that no mortgage company can claim to offer its clients a comprehensive mortgage service without including FHA's and GI's. We all will admit that these government-sponsored loan programs have made an important contribution to the techniques of conventional lending. This is not the place to contrast the lending practices of the 1920's with those now followed. All of us who have been in the business for 25 years or more recognize that a fundamental change for the good has taken place. No small part of the credit for this improvement is due to those who developed the underwriting techniques and the lending patterns introduced in the mid-thirties by FHA.

No, our choice as mortgage bankers is not between making conventional loans on the one hand or FHA and GI's on the other. Rather, it is the choice between making nothing but FHA and GI loans or making both conventional and government guaranteed loans, with the proper use of both. My thesis is that our salvation as mortgage bankers lies in the second choice.

As a means of developing that thesis, a word about some of the basic differences between conventional and government insured and guaranteed loans would be in order.

First, the conventional lender is required to lean upon his own judgment of the property and borrower. He must make his own appraisal, his own analysis of the property and neighborhood, his own rating of the borrower's credit and ability to pay. He can't fall back upon the government insurance or guaranty to cover up his mistakes. He is entirely upon his own.

D. M. Thompson

Second, the conventional lender is able to adjust the terms to fit the risk. One of the basic weaknesses in the FHA and GI programs, in the opinion of many experienced lenders, is the rigidity of the terms. This is partially offset by the permission of premiums and discounts—but only very slightly. This, at best, is a poor substitute for a flexible rate. The result is that FHA and GI money tends to seek out only the most attractive areas and types of business and to by-pass other business which might be attractive at a higher rate. The VHMCP is an attempt to solve by artificial means a resulting problem which probably would disappear quickly if FHA and GI rates could

seek their own level. Fortunately, the conventional lender is not faced with such controls. His rates and terms are fixed by competition and by free negotiation between him and the borrower. Consequently, conventional money usually is plentiful even in times when FHA and GI money are tight. FNMA and direct government lending have been the result of the government's effort to make FHA and GI money available at artificially low rates. We can recognize the threat to private lending which these activities represent. Their need would be largely eliminated by the same flexibility of rate which exists in conventional lending.

Third, the area of conventional lending is much broader than FHA or GI. Generally speaking, FHA and GI loans are limited to single-family houses. Conventional loans include not only all types of housing, but also commercial and industrial real estate and all other types. According to Federal Reserve figures, the total urban mortgage debt at the end of 1954 was $103 billion. Loans on one-to-four family houses accounted for $75 billion. The remaining $28 billion was secured by types of real estate largely untouched by the FHA and GI programs. Even in the financing of housing, the FHA and GI loan plans are somewhat less important in point of volume than conventional loans. At the end of 1954, the total volume of FHA and GI loans outstanding was $31.5 billion. This represented 42 per cent of the $75 billion of housing loans. The remaining 58 per cent, or $43.5 billion, were conventionals.

You would assume, however, that the percentage of FHA and GI loans was increasing rapidly and that conventionals were losing ground. Let's see what actually happened during 1954. The total housing debt increased from $66 billion at the end of 1953 to $75 billion at the end of 1954, a net increase of $9 billion. Surely, with the great revival of FHA activity and with the spread of GI lending on the no downpayment plan, not to mention the no-no downpayment, most of this increase must have been represented by these government guaranteed loans. Such, however, was not the case. Only 38 per cent of the increase were FHA and GI's and 62 per cent were conventionals. The total outstanding FHA and GI loans increased from $28.1 billion to $31.5 billion, a net increase for the year of $3.4 billion, whereas conventional loans on one-to-four family houses increased from $37.9 billion to $43.5 billion, a net increase of $5.6 billion. Actually, FHA and GI loans represented a slightly smaller per cent of the total housing debt at the end of the year than at the beginning.

How does all of this fit into my thesis that the mortgage banker's salvation lies in greater emphasis upon conventional lending? I can support it with four cornerstones: Proficiency, Profit, Prestige and Professional Standing.

The Profits in Conventional Lending

» *Proficiency*: Webster defines proficiency as the state of being expert and adept, as going forward or making progress in the acquisition of knowledge and skill in any particular field. It is self-evident that the mortgage banker who learns how to make conventional loans and who engages largely in this activity will become more proficient in the basic skills of real estate financing than the lender who makes nothing but FHA's and GI's. He must be able to appraise the property and neighborhood, to underwrite the borrower's credit and to fit the terms to the mortgage risk. All too often in making FHA and GI loans the only test he applies is whether or not the loan can be sold. If I were the investment officer of a large insurance company or savings bank—even if, for legal or other reasons, I wanted to confine my real estate loans in a certain area to FHA's and GI's—I would prefer to buy these FHA and GI loans from a mortgage banker who also was active in conventional lending. I believe I would have more confidence in his skill in picking good loans.

» *Profit:* Mortgage bankers probably are less concerned about immediate profits than most businessmen. Their point of view is long-term. Their principal objective is to put on their books desirable business which will produce, year after year, a steady flow of compensation. This is one of the reasons why the wise mortgage banker is placing increasing emphasis on conventional business. The average conventional loan is larger, which means that it produces a greater service fee in proportion to the work to be done. At the same time, the cost of servicing is lower because ordinarily the credit is stronger, the equity greater and the likelihood of delinquency less. Furthermore, this business is more likely to stay on the books for the contract term. Borrowers are more stable and less likely to sell, with resulting refinancing. Moreover, most conventional loans are protected by restricted prepayment options. If you, as a mortgage banker, were purchasing the business of one of your competitors, you could afford to pay a higher price for the conventional servicing than for FHA and GI.

Another important item from the standpoint of profit is the question of turnover. The volume of business which you can do for the year, per dollar of invested capital, depends in part on the time required to negotiate, close and deliver your loans. If you can reduce the over-all processing time from four months to two months, you can do twice the volume of business on the basis of the same capital and bank credit.

Profit Opportunities

Then, too, the field of conventional lending includes many types of properties not covered by the guaranteed loan program. The mortgage banker who is equipped to make conventional loans has a much wider area of operations. This means that his profit opportunities are greater and especially since the exclusive conventional field includes some of the most profitable types of business, such as loans on larger commercial and industrial properties.

Add to these considerations the fact that fees and charges are unregulated in conventional lending and can be negotiated to fit the work involved. You then will agree, I believe, that the long range salvation of the mortgage banker from the profit

standpoint lies in more conventional activity.

» *Prestige:* The prestige of any mortgage banking firm depends, in part, on the quality of the business it handles. Moreover, the period of time required to establish its position and standing in the community and the degree of skill and experience required by the type of business it does are factors reflected in its prestige. It is no reflection upon those recently established in the FHA and GI brokerage business, nor upon the quality of FHA and GI loans, to point out that a conventional loan business is the product of years of effort and requires a high degree of skill and experience.

» *Professional Standing:* Is mortgage banking a trade or a profession? Are we brokers or bankers? Possibly these are differences only in terminology, but I believe that a more basic difference is involved. The opening chapter of the MBA text on *Mortgage Banking* states that the mortgage banker's primary function is that of extending credit on real estate. He, like the commercial banker, controls a segment of the credit system and is responsible for the use of this power for the public good. This implies that he possesses the basic skills to analyze the facts and to arrive at independent judgments which guide him in the extension of credit. The economic welfare of the real estate industry depends upon the soundness of the decisions made by him and by hundreds of other mortgage bankers, acting independently of each other on the basis of their individual judgments. This is the very essence of the free enterprise system.

Praise for FHA and VA

Both FHA and VA are highly respected for the quality of their work, and for the services they perform. I am sure we shall continue to cooperate with them and to make generous use of their facilities. It is not sufficient, however, that we merely become skillful in filling out the various forms that they require. If our only contribution is drumming up the business and processing the paper work, we may not be too far removed from direct government lending and the elimination of mortgage banking as a private business. It would be unfortunate, both for us and for the economic welfare of the country, if we should become entirely dependent upon these agencies and should completely abdicate our responsibilities as mortgage bankers in their favor. On the other hand, if we as experienced responsible lenders work with these agencies on the basis of mutual confidence and cooperation, the FHA and VA programs can continue to be an important supplement to private lending.

Fortunately, the flow of real estate credit still remains predominately under private control. It behooves us as mortgage bankers to keep in good repair the basic skills of our profession and to maintain within ourselves the courage and the power of independent decision. Thus, I submit that our salvation as mortgage bankers, the salvation of our profession, depends upon our continued emphasis upon conventional financing.

Crossroads of Obsolescence

By **CHANNING C. BEETH**

Mr. Beeth is the immediate past president of the Society of Residential Appraisers. Author of many articles on appraisal subjects, including a thorough study of the obsolescence caused by proximity to airports, he has also taught appraising in several local schools. Experienced in all types of appraising, he has particular interest in residential work as an aid to brokerage. The salesmen in the office of the Hamline Twin City Real Estate Company, of St. Paul, of which Mr. Beeth is president, are trained to make an appraisal of each listing, both to facilitate sales and financing. Mr. Beeth is also a member of the American Institute of Real Estate Appraisers and serves on the special purpose appraisal division of the Admissions Committee.

IN THE Twin Cities, we have sharply turned a corner. It is a corner that we oldtimers among the appraisers have been scanning the horizon (in vain) for 15 years. Since late January, the typical buyer has discounted obsolescence.

C. C. Beeth

During that long period of urgency in seeking shelter, five rooms of living space seemed to command whatever price was asked without regard for location, design, convenience or other items that mortgage lenders had been accustomed to reckoning with in their appraisals. But recently buyers have become selective—even in the face of nothing-down, 25-year loans.

One new subdivision near St. Paul, carrying VA financing, has 10 or 12 houses ready for occupancy. They have been ready for six weeks. It takes only $400 down to buy these homes in the $10,000 bracket. The obstacle is that the location is a poor one; there is no public transportation available and there are no shopping facilities nearby. The builder has called in a real estate broker to help with the sales. The broker is running half-page ads, but even so had not made any sales. Other large builders are also employing brokers to make sales of houses which formerly sold easily from the "self-service" shelf.

There was a time when anything sold easily. It doesn't work that way any more. On a panel appraisal of a subdivision north of town, poor drainage requires a large drain field fingering out from the dry well at $400 or $500 extra construction expense. The houses are depreciated due to this item of obsolescence.

A subdivision appraisal three months ago on a panel appraisal for the VA had a row of houses backed up to a railroad right of way. No depreciation had been taken on the houses then but the lot prices were cut down. This plat was changed and submitted for reappraisal last week. Now 10 per cent was taken for depreciation on the *houses* to be *built on these lots.*

The first evidence of the acknowledgement of obsolesence has been in the difficulty of selling in distant subdivisions and particularly those without adequate water, sewage disposal, shopping and transportation. Buyers are talking to our salesmen about the nuisance of maintaining wells and septic tanks. Quite a number of these buyers (who are prospects for older, close-in homes) have been living on the outskirts for five or six years. They are ready to come back to the city. Distances are being measured in minutes—and degree of congestion!

In the Twin Cities, we are approaching a saturation point for speculatively built houses, not only in the $10,000 class but also in the brackets up to $20,000 and $25,000. Our office recently sold for $28,000 a home that had been built at a cost of $29,000 three years before. The seller had spent considerable money on the landscaping and had to absorb a sales commission out of the lower price.

This doesn't mean, however, that the market is dead or that we have incurred serious overbuilding. It means that we are getting into a truly competitive market. Real estate is being sold on a "bid and ask" basis. Buyers point out faults in the floor plan as well as location; they expect an adjustment to be made accordingly. In new areas where the builder has become accustomed to having his price tag set for him by a government agency, the buyers look and inquire. When no adjustment is offered, they go on looking elsewhere. Seldom does a buyer come back weeks later to find out whether the price has come down. At that point, even a lower price is little help because the supply of prospects has dwindled so during the first

few weeks when a property is on the market. The builder, like the seller of older homes, must learn immediately to price his product properly at the outset in order to avoid the stigma of shopworn merchandise.

The mortgagee has a vital interest in the competitive position of his security, too. His appraisal should be one that can be a guide to the builder as well as the loan committee. It must recognize possible obsolescence.

Some of the buyers who are now shopping for larger, older homes have been living in newer homes having three bedrooms. A family of six can be accommodated for sleeping in those houses but they are short on *living space*. There are no dining rooms. The kitchens are cramped because they must provide dining space. The living room is too small. The only place the children have to play in is the basement. In a climate of long cold winters, the older home with its extra room or two and the larger room areas offers a big advantage. These older homes are enjoying a strong market if they are realistically priced.

Every reader of trade publications in the real estate field knows that there has been a tremendous change in the type of buyer with the advent of GI financing. The trend for young people to start out with new homes has spread to FHA and conventional financing as well. The trend toward larger families is also well known. The appraiser and the mortgage lender need to have a mental picture of typical families in the market today.

The vast majority are young couples between 25 and 35 years of age, with from one to three children. In our area, the typical salary is from $250 to $300 per month, with some potential for increases as time goes on. These families have no cash. They are buying shelter in terms of 720 to 800 square feet of living space, with a basement but ordinarily with no expansion provisions in the house itself. The prices run from $10,000 to $12,000. They need three bedrooms, so they are crowded without a dining room. These typical buyers are not finding a comfortable solution to their shelter needs, but they know that they must put up with the minimum.

During the years of housing shortage, we have not had too much occasion to have to measure obsolescence—either functional or economic. People bought to get a roof over their heads. One of the "bundle of rights" that is basic to value, in any pile of mortar and lumber and brick that we call a house, is the right of enjoyment, the pure pleasure that comes from owning the home and from living in it. Man is willing to pay for the creature comforts that such home ownership will afford him. And, the more comfortably the house is arranged, the more he will pay. The more "creature comforts" the home provides for, the more value the home will have. In order to estimate the effect that the *lack* of some of these "creature comforts" will have upon a possible selling price (and thus upon value) one must draw upon experience.

Another typical family in today's market is that in which the parents are in the 35 to 45 year age bracket. They, too, have three or more children but they have a down payment of $1,000 to $2,000 (which may have been garnered from the equity in the sale of the smaller home they had been living in). The heads of these families earn from $400 to $450 and have established positions. They are shopping for space and comfort in the $13,000 to $15,000 range. Many of them are finding what they need in older homes.

A third group of buyers is made up of the couples from 35 to 45, or older, who have no families. They are buying in the $20,000 to $25,000 bracket. While they, too, want comfort and convenience, primarily they do not need much space and they usually have two cars so they can be sold new houses in outlying areas. Some of them are still anxious to buy new houses because they are keeping up with the Jones's but that incentive for display in home ownership has almost vanished from the general real estate scene. Comfort is by far the most important factor in today's sales.

The premium that buyers seemed always to place on newness is becoming less important. Nevertheless, Prof. Edward E. Edwards, of the School of Business of Indiana University, writing in the March issue of *The Review of the Society of Residential Appraisers*, reports that in some cities there are still enough buyers interested in the novelty of a new house to keep prices of new houses considerably above the prices of equivalent older homes (provided that good locations

(Continued on page 49)

VITAL STATISTICS

ALTHOUGH the general business recovery is plainly proceeding much more rapidly and more broadly than was anticipated, attention this month again focuses on the spectacular stride being made by mortgage finance and building.

For the first two months of the year, the dollar volume of mortgage recordings [1] was 42 per cent ahead of that of a year ago. Even more striking was the increase in the mortgage acquisitions of life insurance companies [2] during the same period as compared with last year: FHAs up 47 per cent, VAs up 171 per cent, conventionals up 41 per cent, farm mortgages up 21 per cent.

Impressive as these increases are, they pale at the breath-taking rise in VA appraisal requests [3], which climbed again in March and piled up for the first quarter a 100 per cent increase over the number of requests in the first quarter of 1954. While the total quarter-to-quarter increase in FHA activity was only a feeble 4 per cent, the number of applications for insurance on home mortgages alone (excluding the asphyxiated rental housing program) rose by more than 40 per cent.

The vigorous rate of housing starts [4] reflects the ease with which, up to this time at least, liberal mortgage terms could be obtained. The number of new privately owned units started in March hit a record of 116,100, exceeding even that of March, 1950. For the first quarter of the year, the average seasonally adjusted annual rate is around 1.4 million, which, if sustained, would let 1955 top 1950.

There are increasing signs, however, that the tightening of money rates, as evidenced in the way bond yields [7] have been creeping up during the past several months, is now being reflected in the mortgage market. The acceptability of the 30-year no-down-payment loan now seems again on the wane, though credit on more conservative terms remains ample.

The continued expansion of industrial production and the growth in department store sales [6], along with the substantial increase in non-residential as well as residential building [5], show a widespread buoyancy that promises to make 1955 outdo both 1954 and 1953.

1 Recordings of Mortgages of $20,000 or Less (non-farm)
(millions of dollars)

	—1955—		—1954—		First 2 Months	
	Feb.	Jan.	Feb.	Jan.	1955	1954
Savings and loan associations	$ 702	$ 688	$ 517	$ 467	$1,390	$ 984
Commercial banks	365	379	274	263	744	537
Insurance companies	151	164	105	108	315	213
Mutual savings banks	116	128	85	85	244	169
Mortgage companies and others	624	665	444	449	1,289	894
Total	$1,958	$2,024	$1,425	$1,372	$3,982	$2,797

Source: Home Loan Bank Board.

2 Mortgage Acquisitions by Life Insurance Companies
(millions of dollars)

	—1955—		—1954—		First 2 Months	
	Feb.	Jan.	Feb.	Jan.	1955	1954
Non-farm	$ 443	$ 479	$ 277	$ 281	$ 922	$ 558
FHA	66	69	44	51	135	95
VA	118	161	46	57	279	103
Other	259	249	187	173	508	360
Farm	52	42	42	36	94	78
Total	$ 495	$ 521	$ 319	$ 317	$1,016	$ 636

Source: Institute of Life Insurance. Data include non-residential as well as residential mortgages.

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for the Mortgage Banker

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Applications to FHA for Insurance on New Construction, and Appraisal Requests to VA on New Construction
(number of units)

	—1955—		—1954—		First 3 Months	
	Mar.ᵖ	Feb.	Mar.	Feb.	1955ᵖ	1954
FHA applications	36,679	28,548	37,349	25,703	91,294	87,385
Units in home mortgages	35,597	28,349	28,055	20,008	89,593	63,070
Units in project mortgages	1,082	199	9,294	5,695	1,701	24,315
VA appraisal requests	71,939	64,192	36,501	34,407	182,335	91,032

Sources: Federal Housing Administration, Veterans Administration. ᵖPreliminary

4

Number of Non-farm Housing Units Started

	—1955—		—1954—		First 3 Months	
	Mar.ᵖ	Feb.ᵖ	Mar.	Feb.	1955ᵖ	1954
Private	116,100	88,600	93,200	73,900	292,500	232,200
Public	900	1,400	2,000	1,300	2,500	4,600
Total	117,000	90,000	95,200	75,200	295,000	236,800

Source: U. S. Department of Labor. ᵖPreliminary; figures are revised three months after issuance.

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Expenditures for New Construction Put in Place
(millions of dollars)

	—1955—		—1954—		First 3 Months	
	Mar.ᵖ	Feb.	Mar.	Feb.	1955ᵖ	1954
Private	$2,151	$1,986	$1,779	$1,637	$6,198	$5,126
Residential (non-farm)	1,145	1,034	863	758	3,290	2,437
Non-residential building	559	548	469	474	1,648	1,429
Public utility	328	294	326	292	924	917
Farm and other	119	110	121	113	336	343
Public	768	658	788	709	2,152	2,231
Total	$2,919	$2,644	$2,567	$2,346	$8,350	$7,357

Source: U. S. Departments of Commerce and Labor. ᵖPreliminary.

6

General Business Indexes
(1947-49=100)

	—1955—		—1954—		First 3 Months	
	Mar.	Feb.	Mar.	Feb.	1955ᵖ	1954
Industrial production*	135ᵖ	133	123	125	133	124
Wholesale prices	110ᵖ	110.4	110.5	110.5	110.2	110.6
Department store sales*	112ᵉ	112ᵖ	105	109	114	107

Sources: Federal Reserve Board, U. S. Department of Labor. ᵉEstimated. ᵖPreliminary.
*Seasonally adjusted.

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Bond Yields

	—1955—		—1954—		First 3 Months	
	Mar.	Feb.	Mar.	Feb.	1955	1954
Long-term U.S. governments:						
3¼% issue of May, 1953, 1978-83	2.92	2.92	2.73	2.85	2.87	2.83
Other long-term issues	2.71	2.72	2.51	2.60	2.69	2.60
High-grade municipals (Standard & Poor's)	2.45	2.42	2.38	2.39	2.42	2.42
Moody's corporates, total	3.20	3.18	3.14	3.23	3.18	3.24
Moody's Aaa corporates	3.02	2.99	2.86	2.95	2.98	2.96

Source: Federal Reserve Board.

Voice of the Home Office

A Better Servicing Job Is Needed

This life company official thinks that many correspondents could do a much better job of servicing than they are doing. His other complaints: failure to make re-inspections, negligence in sending remittance reports on schedule and neglect in delinquency cases.

I AM a firm believer in the correspondent system, but I have one pet peeve and that is the tendency on the part of some correspondents to do what I consider a very lackadaisical job of servicing. In a word, servicing as we knew it (and needed it) some years ago is, in part at least, a lost art, an art which we should recapture before it is needed again.

Some of the habits which I think could be improved on are:

» A tendency at times not to be sufficiently aggressive in insisting that borrowers meet mortgage payments and taxes promptly when due. We are always willing to consider sympathetically the hardship case, but in general our belief is that nothing is to be gained by dragging along with a chronic delinquent.

» Failure to keep the home office properly informed as to what action is being taken and what arrangements made for settlement when a loan becomes delinquent. Much needless correspondence by both the correspondent and the home office could be eliminated by better lines of communication and a more informative attitude on the part of the correspondent.

» Failure to make re-inspections of mortgaged property in line with scheduled program. Contrary to the opinion expressed in these articles recently, we have had considerable success with this program and believe it to be well worthwhile.

» Remittance reports not sent in on schedule. This is particularly annoying when the final report of the month is not received in time so that the payments may be deposited that month. When this occurs, the statement of interest outstanding seemingly shows a large default which probably would not have been so at all if the reports had been sent out on the scheduled dates.

I am certain that there are none of the points listed above or items of similar nature that cannot be cured with mutual cooperation and a closer relationship between the correspondent and the home office.

One of the most important comments which has been made in these articles in my opinion was "Don't Forget Visits to the Home Office." I believe that it is important for the principals in the correspondent's office and the head of the mortgage or investment department to make regularly scheduled visits to keep a close relationship and working knowledge of local conditions. However, I also believe that an occasional visit to either the correspondent's office or the home office by the servicing manager will pay dividends in better understanding and improved servicing.

Better Communication Lines Needed

"Communication" between investor and correspondent—or the lack of it in too many cases—is seen by this life official as something that can stand a good deal of improvement in many respects.

"COMMUNICATIONS" has been a popular topic recently for authors of articles on employer-employee relationship. Some even see a trend to *over-communication*. However, we have yet to see much evidence of it between correspondents and the home offices of institutional investors.

The great disadvantage that we in the home office operate under is, naturally enough, the fact that we are not on the spot to exercise our own independent judgment. Be it a loan application or a servicing problem, we must rely upon the correspondent to submit data and information in every case which will enable us to form a reasoned opinion. To the extent that the correspondent is able to fulfill this function of keeping the home office informed, to that extent will the expeditious handling of his problems flourish or languish.

The duties and obligations of a correspondent are spelled out generally in a rather formidable legal document which, by whatever name it is known, is the contract between him and his principal. Normally, little reference is made to it. The effectiveness of a correspondent is mani-

fested not only by his record of production and servicing, but also to a substantial extent in the day-to-day interchange of communications by letter, wire or telephone. From the home office viewpoint, the main consideration is that it have all the facts for every case necessary to make a sensible and fair decision. To point up this subject, we will mention briefly several phases of the operation:

Applications

Residential Loans: On residential loan applications, the experienced correspondent will usually furnish the required loan exhibits properly filled out. However, there is frequently special information about new neighborhoods, or about the applicant or such as the existence of special assessments, violations of zoning ordinances or restrictions, encroachments or easements that is not supplied. The type of photograph furnished is very important. Matters such as these can be troublesome in considering an application and when it comes time to purchase or close the loan.

Income Properties: Income properties may cover a variety of types of loans, an apartment house, block of stores, industrial property. The property may be existing or to be built. On commercial properties the tenancy may be single or multiple. Each company probably has its own special requirements with respect to the information needed on income property applications. Without delving into all of the various information that is needed, it is only necessary to point out that an incomplete presentation invariably jeopardizes favorable consideration of this type of application.

Not only is it troublesome for the home office to have to go back to the correspondent for additional information, but it is also embarrassing for a correspondent to ask additional information from an applicant since the natural reaction is encouragement, with the consequent disappointment if the application is finally rejected.

Servicing

Defaults: To intelligently decide what to do, it is highly important for the home office to receive adequate information as to the cause of a default and also to receive definite recommendations from the correspondent regarding the procedure to be followed in handling it. The lender wants his loan in good standing, but the people handling this phase of work in the home office are not inhuman. If there is hardship, we want to know. We cannot know if the correspondent does not let us know. It is hard to stress too much the need for complete reports on defaults.

Prepayments: There is probably no phase of servicing that requires closer meeting of the minds between the home office and correspondent than the matter of considering prepayment of loans contrary to the options in the mortgage papers. Mortgage investments are made by the home office as long range investments. It is expensive and troublesome to have them paid contrary to their terms, even if a premium is collected or a substitute new loan is provided.

Ordinarily we prefer to insist upon strict observance of the mortgage in respect to repayment. However, we have to be realistic and there is ever the hardship case where a borrower is transferred to another city and cannot sell his house subject to the mortgage, or has entered into a binding contract to sell without reference to his right to pay the mortgage. In all such cases involving unusual circumstances, the home office can come to a fair decision only by being in possession of all the facts. A full and complete explanation should accompany all requests for prepayment outside of the mortgage contract.

To restate the case, it is the correspondent's obligation to so inform the lender that the latter can confidently make as clear a judgment as if he were sitting at the correspondent's desk.

In stating these remarks from a home office standpoint, we are aware that we are facing a contrasting view from some correspondents that the home office also may be negligent at times in keeping correspondents informed of changes in policy or in giving clear reasons for actions taken. Let us all strive toward greater effort to make our communication facilities as efficient as possible and try to visualize the type of information we would like to have if we were in the other fellow's shoes.

This monthly forum of discussion of home office and correspondent problems is open to anyone who would like to come in and express an opinion or register a complaint. It's been appearing in these pages for several months and already there is evidence that some of the ideas and suggestions have taken root and helped in ironing out annoying situations. That was the underlying idea all along. If you have an investor or correspondent problem, submit it to the editor. Contributions appear unsigned.

Voice of the Correspondent

How Fair Are Servicing Agreements?

Agreements that permit the investor to terminate them on a moment's notice put the correspondent in a precarious position. What is needed is a standard agreement upon which both investor and the correspondent could model their own individual contracts.

ONE of the most vital and important functions of the Mortgage Bankers Association is to bring closer together the life insurance companies and their correspondents, and to assist them in solving mutual problems.

At the present time, a deplorable situation exists in the matter of the terms and provisions of the servicing agreements between the insurance companies and the correspondents. In these agreements there is an entire lack of uniformity and a substantial lack of objective. A small portion of them give consideration both to the safety of the insurance company and to the welfare of the correspondent; on the other hand, a large portion consider only the position of the insurance company, omitting entirely the security and welfare of the correspondent. Too many of these agreements, by their terms, permit the insurance company to terminate the agreement and withdraw the portfolio from the correspondent without any cause whatever, or for a minor technical breach or default on the part of the correspondent, and without payment of any compensation to the correspondent or perhaps a small, inadequate token payment.

Many of these contracts are not good for either the insurance company or the correspondent. Where a correspondent has servicing agreements with two or more insurance companies, as most correspondents have, he will, of course, favor the principal with which he has the fairest and most favorable contract.

Why should a correspondent build a portfolio for some insurance company that can take it away from him at its whim? The argument is made that insurance companies just don't do this so long as the correspondent does a good job. This is a fallacious argument. One carries fire insurance on his home even though the home has never yet burned down. It would be just as logical to argue that no insurance company should want to do business with a correspondent who is so irresponsible and gullible as to leave his financial welfare entirely to the whim of an insurance company rather than keeping control of it himself.

The correspondent who is in the unfortunate position of having all or a major portion of his servicing contracts terminable at the whim of the principal, without adequate compensation to the correspondent, is obviously in a very insecure position. This hurts his credit standing and makes it impossible for him to undertake long-term commitments which would be beneficial to his business and which he could do if his affairs were on a sound basis.

MBA could render a valuable service to both insurance companies and correspondents if this matter were given a thorough study by a committee appointed for that purpose, and brought up for discussion at some of our clinics.

It certainly should not be difficult to develop a form of servicing agreement which would be fair and equitable both to the principal and to the correspondent.

How Far Can We Stretch Service Fee?

HOW many additional services formerly performed by the investor can the correspondent take on before reaching the danger point in cost?

The correspondent receives today the same service fee that he received twenty years ago even though his costs have tripled and quadrupled—but he performs many more services than he did then. Twenty years ago, for the one-half of one per cent service fee, the correspondent, as a rule, was only required to: Collect and remit payments, service delinquencies, obtain tax and insurance statements for payment and see that they were paid after checks were returned from the investor and to make yearly inspections of the properties. At that time, costs were about one-third of what they are today.

Today, 20 years later, the correspondent's remuneration is the same. But, in addition to the services mentioned above, he has now acquired and performs the following *additional* services—all costly: Retains all escrow funds from which disbursements are made for taxes, FHA insurance and hazard insurance, and this necessitates furnishing the investor with monthly or quarterly trial balances, reconciliation reports and other data. He retains insurance policies for which he is responsible and must see that adequate coverage is in force at all times; and this necessitates having extra employees to do nothing but handle this properly. Some investors have now started the single-debit system, and this requires additional reports by the correspondent.

Don't misunderstand; I am all for keeping the escrow funds and insurance policies, believing that the correspondent can give better and quicker service to the mortgagor. However, if the correspondent will analyze his expenses, the number of extra employees, and the amount of extra space which he has to have to render these extra services, I believe that most of them will be amazed to find out what it is costing. The investor's expenses should be reduced considerably as a result of this shift.

Formerly, some of the cost could be absorbed by the correspondent when he received higher acquisition fees. However, with the drastic reduction of income from this source, because of the increasing amount of paper work required in the case of FHA and VA loans, the income received from the brokerage fee is practically all absorbed in the cost of processing the loan. This leaves the correspondent to perform all the many services which he does today for the same remuneration which he received 20 years ago. The one saving feature has been that with full employment the correspondent's cost in servicing delinquent loans has been very modest in relation to other costs.

Should not some adjustment be made? Why not a service fee of one-half of one per cent for the first seven years and three-quarters of one per cent thereafter? For, as many correspondents will agree, the service fee is not all gravy.

WHEN THE MORTGAGE BANKER IS LIABLE

Another in this series of excursions into the field of title insurance which Mr. Gill has been writing for The Mortgage Banker. *Here he is concerned with the mortgage banker's liability, when he is liable and when he isn't, and the situations that can arise in the lending operation which can put the lender in a position he never contemplated.*

By **McCUNE GILL**

President, Title Insurance Corporation of St. Louis

FOR many years mortgage bankers have been making real estate loans, and later selling them to the ultimate investing institution. The payee in the note endorses without recourse. An abstract of title shows the mortgage or deed of trust to be a first lien.

After making such an assignment of the note and mortgage, has the mortgage banker any further concern with the transaction? Specifically, is he or it liable on an "implied warranty," if the title is afterward found to be defective, or the mortgage not a first lien, because of something not shown of record when the loan was made and hence not shown on the abstract?

WARRANTY: The decisions of the courts hold that a mortgage banker who sells or assigns a mortgage is liable to the investor or assignee on an implied warranty of genuineness, priority and title (even though not liable for nonpayment), if the deed of trust or note is later found to have been:

1. forged, or maker nonexistent,
2. executed by a maker having no capacity to contract,
3. paid in whole or in part,
4. void because of a legal defect, whether shown of record or not,
5. subject to a prior unknown mortgage, or one fraudulently released,
6. subject to mechanics' liens filed later but prior in lien,
7. subject to the rights of previous holders of the paper.

APPLICATION: This implied wardanty applies to assignments of:

1. negotiable instruments,
2. non-negotiable instruments,
3. is effective even though the defect was not shown of record,
4. even though the agent did not know of the defect,
5. even though the paper was endorsed without recourse,
6. was already negotiable and hence was not endorsed by the assignor.

AGENCY: The mortgage banker is liable on the implied warranty, whether:

1. acting as owner of the security or
2. as agent for an undisclosed principal.

PROTECTION: The mortgage banker, however, can fully protect himself or itself by requiring that title insurance, issued by a financially responsible title insurance company, be furnished by the borrower. Even though the investor might be willing to accept less protective title evidence, such as an abstract, there is no reason why the mortgage banker should assume such a risk himself, especially as he can obtain protection without expense to himself, the title policy being paid for by the borrower. Title policies protect against the above defects, but abstracts of title do not.

STATUTE: The Negotiable Instruments Law says that every person negotiating or selling a negotiable instrument, such as a note, mortgage or deed of trust, even though such sale or transfer be only by mere delivery of the papers, or by qualified endorsement without recourse, impliedly warrants:

1. that the instrument is genuine and in all respects what it purports to be.
2. that he has a good title to it, and

3. that all parties had capacity to contract.

COURT DECISIONS:

1. One of the decisions was in a suit brought by an investor against an agent or note broker, because the note was proven to be a forgery after the agent had sold it to the investor. The agent contended that he only represented the owner of the note and it was not his duty to inquire as to the genuineness of the signatures of the makers of the note, nor was he negligent in this instance. The court, however, held that even though the investor may have known that the broker was such, the broker was nevertheless liable, inasmuch as the broker did not disclose the name of his principal. "Under these circumtances," said the court, "the broker or agent is to be held as principal. And it appears to be very well settled that the vendor of a note even without endorsement, is responsible for the genuineness of the paper. He is considered as representing the note to be signed and endorsed by the persons whose names appear upon it in that character."

2. The holder of a deed of trust had obtained an abstract of title and an attorney's opinion showing that the deed of trust was a first lien on the land. The deed of trust was assigned as part of the purchase price of a lot and building. The note was endorsed without recourse. The representation by the assignor was in good faith and without knowledge that there was in fact a prior deed of trust on the land that was not shown in the abstract. The court held the assignor liable on an implied warranty of priority. Said the court, "What did the vendor sell? A promissory note, a first lien on real estate? But it was not a first lien, and that it should be was the most material thing in the bargain. The words 'without recourse' in the endorsement only exempt the endorser from liability in case of nonpayment. They do not exempt him if the note turns out not to be genuine or not a first lien. The honesty of intention with which the false declaration is made is not material."

3. An agent sold a forged deed of trust and note to a woman investor who acted through her husband. The agent did not know that the documents were forged and made no express warranty of genuineness. The notes were endorsed by the payees without recourse. Nevertheless, the court held the agent liable, saying that any person selling or assigning a negotiable instrument whether he is the owner thereof or the agent of an undisclosed principal who owns them, warrants the genuineness of the signature to the note and this is so even though the assignor's name does not appear on the note. The assignor, even without endorsing, is responsible for the genuineness of the paper, by an implied warranty. And the court said that it is wholly immaterial whether the agent knew that the paper was forged, and his innocence was not a defense.

4. In the next case the seller of the deed of trust endorsed the note without recourse. It was discovered later that the deed of trust was void because it had been signed by a company under the jurisdiction of the Public Service Commission and the authorization of the Commission had not been obtained. The court held that the purchaser of the deed of trust and note could recover the purchase price from the seller.

5. A realty and loan company sold a deed of trust and notes to an investor and gave the investor an abstract of title showing the deed of trust to be a first lien. The realty company's officers and employees thought the deed of trust was indeed a first lien, but the fact was that it was not a first lien because two prior deeds of trust had been released by other persons on fraudulent and false affidavits as to loss and payment of notes. The court gave judgment against the realty and loan company even though its officers and employees did not know about the falsity of the releases and did not intend to defraud, and even though it was shown to be the custom of agents and investors to rely on abstracts of title which show only the state of the record title and afford no protection against false and fraudulent releases of prior deeds of trust.

6. A realty and loan company acting by one of its employees sold a deed of trust and notes to an investor. The notes were payable to another employee, who endorsed them without recourse. It was later found that the names of the mortgagors had been forged by the first employee. The court held that the realty and loan company was liable to investor.

7. A real estate company sold a building loan to an investor. Later a mechanic's lien for materials was filed. The court held the real estate company liable to the investor even though representations as to priority of the deed of trust were made by an employee of the real estate company and were verbal and not written.

8. In two cases the real estate company sold or assigned deeds of trust some years after they were executed. In the meantime, taxes had accrued and were not paid. The abstracts had not been continued to the date of assignment. In each case the real estate company was held liable.

9. Sometimes an agent will seek to avoid liability for representations by saying that "the foregoing statements are based on information which we regard as reliable." In one case the sellers of securities were held liable notwithstanding such a clause.

Report to the Members

CLINIC CONCLUSIONS

A very successful Clinic in Tulsa—and the largest Clinic ever held outside New York or Chicago, in the city of Birmingham—have just been concluded. Some observations follow:

1. Servicing is the heart of your mortgage lending operations—do a first-class job of it.
2. The Voluntary Home Mortgage Credit Program has many advantages. It reduces direct government mortgage lending. It enables you to discover new areas heretofore considered remote. It keeps your staff virile by working on challenging loans. It will add good loans to your account that you would not otherwise obtain.
3. Lenders must assume more risk to preserve the mortgage business for private enterprise. The history of the monthly-payment loan proves that the old margin of loan-to-value can be increased. State laws should be changed to increase loan-to-value ratios or even eliminate the requirement in favor of the "prudent man" rule.
4. Greater care, more accuracy and thoroughness must be used in processing FHA and VA loans. Forms mean exactly what they say, and rigid honesty must be followed in completing them.
5. Do not expect the current year always to be bigger than last year so far as residential construction, mortgage recordings, etc., are concerned.
6. Mortgage money will be less abundant this year than last, but adequate to meet every legitimate need. Rates will be higher, but well within the bounds of reasonableness.
7. The greatest attraction for new business comes from the consideration, thoughtfulness, honesty and care you demonstrate with the customers you already have.
8. Carefully study MBA literature. It contains the best ideas on the mortgage business that can be assembled. Many members are now skipping over this important information and thereby losing ideas that should be available to them.
9. Give more and more attention to the development of your conventional loan business.

PERPETUAL PROSPERITY?

Most people would like to believe that prosperity can be perpetual, but practically all doubt that it can. The underlying basis for this doubt is that for every rise there must be a fall, that the area above the line on a graph must be balanced eventually by an area below the line on the same graph, that good is limited. Ignorance and fear are the only things that keep us from perpetual prosperity. Education, research, courage and confidence are overcoming these. While we could have a recession, or even a depression, there is no law that makes such a course of action unavoidable. We can take real comfort in the fact that while we may not achieve perpetual prosperity during our lifetime, it is nevertheless a present possibility and we are working toward it.

Wallace Moir

WALLACE MOIR *President*

MBA Directory

FOR SERVICE TO MEMBERS

OFFICERS

President
WALLACE MOIR, President, Wallace Moir Company, 130 El Camino, Beverly Hills, California.

Vice President
LINDELL PETERSON, President, Chicago Mortgage Investment Company, 209 South La Salle Street, Chicago.

Secretary-Treasurer
GEORGE H. PATTERSON, Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

Assistant Secretary-Treasurer
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Director, Department of Accounting and Servicing
W. JAMES METZ, Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

Assistant Director, Department of Accounting and Servicing
EDWARD J. DEYOUNG, Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

Director, Education and Research
LEWIS O. KERWOOD, Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

Assistant Director, Public Relations
ROBERT J. BERAN, Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

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Clinic
JOHN F. AUSTIN, JR., President, T. J. Bettes Company, 616 Fannin Street, Houston.

Conventional Loan
LON WORTH CROW, JR., Executive Vice President, Lon Worth Crow Company, 55 S.W. 8th Street, Miami.

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Farm Loan
A. L. BARTLETT, JR., Vice President, Bartlett Mortgage Company, 815 Felix Street, St. Joseph, Missouri.

FHA
FRANKLIN D. RICHARDS, Vice President, Richards, Alstrup and Redman, Inc., 712 Washington Building, 15th and New York Ave., N.W., Washington, D. C.

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THOMAS E. LOVEJOY, JR., President, The Manhattan Life Insurance Company, 120 W. 57th St., New York.

Financing Minority Housing
JAMES W. ROUSE, President, James W. Rouse & Company, Inc., 14 West Saratoga Street, Baltimore.

GI
B. B. BASS, President, American Mortgage & Investment Company, 101 First National Building, Oklahoma City.

Insurance
GEORGE H. DOVENMUEHLE, President, Dovenmuehle, Inc., 135 South La Salle Street, Chicago.

Legislative
J. W. JONES, Jones-West Mortgage Company, Rio Grande National Building, Dallas.

Membership
R. C. LARSON, Executive Vice President, C. A. Larson Investment Company, 348 North Camden Drive, Beverly Hills, California.

Membership Qualifications
E. R. HALEY, President, General Mortgage Corporation of Iowa, 1021 Fleming Building, Des Moines.

Mortgage Servicing
FRED K. CORDES, Vice President, The Bowery Savings Bank, 110 East 42nd Street, New York.

Pension Fund
ROBERT E. GOLDSBY, President, Jersey Mortgage Company, 280 N. Broad St., Elizabeth, New Jersey.

Redevelopment, Conservation and Rehabilitation
FERD KRAMER, President, Draper and Kramer, Inc., 33 West Washington Street, Chicago.

Publicity
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Research
ROBERT H. PEASE, President, Detroit Mortgage and Realty Company, 333 West Fort Street, Detroit.

Resolutions
BROWN L. WHATLEY, President, Stockton, Whatley, Davin & Company, Corner Bay and Laura Streets, Jacksonville.

Trust
FRANKLIN BRIESE, Vice President and Treasurer, The Minnesota Mutual Life Insurance Company, 156 East Sixth Street, St. Paul, Minnesota.

Young Men's Activities
WILLIAM H. OSLER, Vice President, W. A. Clarke Mortgage Co., Second and Locust Streets, Harrisburg, Pennsylvania.

GOVERNORS, REGIONAL VICE PRESIDENTS, ASSOCIATE GOVERNORS AND PAST PRESIDENTS SHOWN PAGE 1

New Development in MBA Education

School of Business Administration
University of Michigan

THE newest MBA activity in the field of education will be inaugurated next month at the University of Michigan School of Business Administration in Ann Arbor, with the initial Conference for Business School Deans and selected staff members. The meeting will be something entirely new in the fields of education and the mortgage industry. It marks the first time an industry has set up a program to "educate the educators." For our industry it will mean that the educators will be better equipped for their assignments in mortgage banking education in colleges and universities.

It is an activity which, for the long-term, holds great possibilities for achieving higher educational standards in mortgage banking but, for the present, it is one that will probably touch fewer members than any other the Association has undertaken in many years. This is explained by the fact that, at this initial Conference, less than forty members of faculties from Midwestern colleges and universities will be invited to participate. If the effort is as successful as anticipated, the Conference is expected to lead to similar meetings in other parts of the country.

The Conference is not directly an Association activity, but is sponsored by the Trust Committee of the Research and Educational Trust Fund of the Mortgage Bankers Association of America, the charitable trust organized by MBA several years ago.

While MBA's educational committee has made substantial progress in furthering the addition of courses pertaining to mortgage banking in colleges and universities, much remains to be done in that field; and it is believed that this can be greatly accelerated by the type of seminar to be inaugurated at Ann Arbor next month.

It will be a two-day meeting, June 21 and 22. Educators invited will all reside at the South Quadrangle Building and the sessions will be in the School of Business Administration.

To give members an idea of the type of subject matter to be treated at the Conference, the main addresses are:

The Economic and Social Significance of Mortgage Banking in the Nation's Economy by Wallace Moir, MBA President and president, Wallace Moir Company, Beverly Hills, California.

How Mortgage Banking Functions for the Home Buyer and the Income Property Investor by Lindell Peterson, MBA Vice President and president, Chicago Mortgage Investment Company,

Mortgage Investment Policies and Practices of Life Insurance Companies and other Institutional Investors, by R. Manning Brown, Vice President, New York Life Insurance Company, New York,

Panel Discussion: *This Is the Mortgage Business,* moderated by William A. Clarke, President, W. A. Clarke Mortgage Co., Philadelphia and immediate MBA Past President. Participants and their subjects are:

Mr. Moir, *Loan Correspondent—Life Insurance Company Relationship*

Mr. Peterson, *Educational Requirements*

Brown L. Whatley, President, Stockton, Whatley, Davin & Company, Jacksonville, Florida, *A Life Insurance Company Mortgage Department*

Aksel Nielsen, President, The Title Guaranty Company, Denver, *Title Companies and the Mortgage Business*

John F. Austin, Jr., President, T. J. Bettes Company, Houston, *Branch Office Operations*

Robert H. Pease, President, Detroit Mortgage and Realty Company, Detroit, *Salaries and Pensions*

Byron T. Shutz, President, Herbert V. Jones & Company, Kansas City, Missouri, *Capital Requirements*

The Theories and Methods in Mortgage Underwriting, Mr. Moir,

FHA-insured and VA-guaranteed Mortgages, Mr. Austin,

Mortgage Banking and the Schools, Mr. Shutz,

Financing Commercial and Industrial Real Estate, Mr. Pease,

The Mortgage Market Today and This Year, Mr. Clarke,

The Legislative Influence in Mortgage Banking, Samuel E. Neel, MBA General Counsel

The faculty members from the University of Michigan School of Business Administration who are participating in this effort are headed by Dean Russell A. Stevenson and Associate Professor of Economics William M. Hoad.

MBA and the Research and Educational Trust Fund have placed high hopes on the success of this initial effort. Personnel problems in the field of mortgage lending and investing have become greater during the present period of growth than few would have anticipated as recently as a decade ago. The future looms as a period where the industry will need an increased supply of trained personnel; and the present educational facilities in our schools and colleges are, frankly, not adequate to meet the needs. It is to correct this condition that the Conference is being launched. The Association and the Trust Fund are looking to the future from a long-term point of view to make sure that there will be an adequate flow of personnel into the mortgage industry and that those who choose to make our business their lifetime careers can be adequately trained for it.

›› NEW VHMCP PROCEDURE: A new procedure of direct interest to mortgage bankers has been announced by the National Committee of the Voluntary Home Mortgage Credit Program. Applications for assistance under the VHMCP that are destined for life insurance companies will now be referred directly to the home offices of the life companies. Hitherto, these applications were referred by the VHMCP to the correspondents of the life insurance companies.

The former procedure led to considerable confusion on the part of mortgage bankers whose investors had not informed them of their role in the Program. As a result, many life insurance companies participating in the VHMCP received no applications, and many mortgage bankers rejected applications which their principals might have accepted.

Under the new procedure, the life insurance company will examine the applications sent to it by the VHMCP Offices and will then refer those applications in which it is interested to the appropriate correspondent, with instructions to negotiate with the applicant for a loan if the property proves to be acceptable. The mortgage banker will thus have a reasonable assurance that the inspection of remotely located properties is worth while.

Only those mortgage bankers who have agreed to make loans for their own account, or who are correspondents of mutual savings banks or other non-insurance investors will continue to receive applications directly from the VHMCP Offices. It is all the more important, therefore, for mortgage bankers in this category to send in their participation questionnaires.

Clinics in Tulsa a

Complete unanimity of opinion in the mortgage business isn't often encountered and the MBA Tulsa and Birmingham Clinics served to emphasize that fact. On the one hand, mortgage bankers from the Southwest and South contemplated the continued high volume of recordings, the booming building industry; on the other hand, they were aware of the misgivings more and more people seem to hold about the most liberal financing terms the industry has seen.

President Wallace Moir told the Clinic audiences that there will be adequate funds to finance needed construction but expressed his concern about the liberal credit terms. "The 30-year, 100 per cent GI loan is too much and leading builders over the country recognize it as too easy credit."

Looking at the continued heavy volume of starts which, to many, present the possibility of over-building, MBA Vice President Lindell Peterson declared that he felt the situation would work out satisfactorily.

"I think the tightening market will ease building without the government stepping in," he said.

"I am not apprehensive that there will be a shortage of mortgage money," he said. On the 30-year loan, he too expressed some concern. The present market, he asserted, is not receptive to 30-year no down payment loans and they are selling below par."

A turning point may be at hand, in the opinion of Stewart Van Berschot of Continental Casualty Company, who told the Tulsa audience that the building boom will go through 1955 at its present high rate but some drop can be expected after that.

>> THEY WERE THERE: In Tulsa, the panel groups looked into the VHMCP, new horizons in the mortgage business and the challenging opportunities in servicing. Below, luncheon group, Thomas J. Sweeney of Veterans Administration, R. O. Deming, Jr., Oswego, Kansas, Arthur W. Viner of VHMCP, MBA General Counsel Samuel E. Neel, W. C.

a and Birmingham

"This will be a good year for the construction industry because of outstanding commitments. Housing starts will be high—equal to those of last year and maybe even higher. But mortgage money will get tighter. I do not see how the present accelerated rate of construction can be maintained. It is now at the rate of 1,400,000 units annually.

"The general economy, including the mortgage industry, began to rise last year, particularly during the last six months. All of the residential construction gain occurred during the last half. The year developed into a builders' market insofar as mortgage money was concerned. At the end of the year the situation was different.

"Many investors already have reached, or are close to, the desired maximum percentage of mortgages to assets and time deposits. Institutional investors, generally, cannot be expected to increase the existing level of outstanding commitments in the months ahead. The best that can be expected from some is maintenance of present commitment levels but I suspect more will operate toward a reduction."

The Clinics themselves — second and third in the MBA 1955 series—were highly successful. Tulsa's attendance was more than 250 and Birmingham's was 500.

Friman, president, Oklahoma Mortgage Association, Waldo J. Bashaw, Tulsa Clinic chairman, President Wallace Moir, John F. Austin, Jr., MBA Clinic chairman, Houston, Jack Vesper, Tulsa and Don R. Nicholson, Oklahoma City; the group at Tulsa. From one city in Oklahoma, Albert Mager, B. B. Bass, Jr., H. B. Moffett and Dale C. Chegwin, all from Oklahoma City; lower right, from the other city in Oklahoma, Jack Vesper, C. Ellis Hunt, Waldo J. Bashaw, Louie Freese and W. C. Friman, all from Tulsa.

>> THEY WERE THERE: In Birmingham, one panel group, in a work shop session, looked into acquisition, appraisal, closing, warehousing and sale of mortgages and another into the VHMCP; below, Philip C. Jackson, Jr. and John C. Hall, both from Birmingham, R. H. Dobbs, Jr. and Robert Tharpe, both from Atlanta.

H. A. Drake, Jr., Birmingham Clinic Chairman, Winfield W. Riefler, advisory member to the National VHMCP Committee and Assistant to the Chairman, Board of Governors of The Federal Reserve System, Washington, Robert W. Warren, Jackson, Mississippi.

Below, O. G. Gresham, Birmingham, Stan Burrows, Chattanooga, L. G. Gillam, New York, A. C. Bryan, Chattanooga.

How You Can Help Your A

AS A member of the only national organization in the country devoted exclusively to serving the interests of mortgage lenders and investors, *did you know:*

>> *That MBA* is an association entirely unique in composition in that it combines in its membership all the principal interests in one industry, such as mortgage correspondents, life insurance and title and trust companies, commercial and mutual savings banks, fraternal societies and others?

>> *That MBA's* reporting service from the national capital concerning developments affecting mortgage lending and investing is acknowledged to be one of the most thorough, accurate and complete of any trade group?

>> *That MBA,* in an age when the accent is heavy on fully trained personnel and more and better education, has not been just among the national trade associations furthering more education within its industry, but has been one of the conspicuous leaders in the effort?

>> *That MBA* is now, and has been for years, conducting as comprehensive a program of meetings for its industry as any trade organization?

>> *That MBA* has pioneered in as many uncharted fields in the past as any trade association in the country? Its inauguration of a reporting and counseling service in mortgage servicing was something entirely new when it was started. It did the ground-work that made it possible for mortgage bankers to be offered blanket bond coverage with advantages not previously available. It sponsored the first texts on mortgage loan servicing, the first textbook on mortgage banking itself.

>> *That through MBA*—and only through MBA—can a working mortgage man hope to make and develop the contacts in the lending field which are so vital to success?

>> *That* MBA annual dues are lower than those of any of its contemporary associations serving related fields?

>> *That MBA's* prestige and influence in governmental and legislative spheres accrue to the benefit of every accredited member firm?

It may be true that most MBA members today *do* know these facts, or at least had a fairly good appreciation of them at one time. But repeating them is appropriate because each fact is truer than ever before; and since each MBA member has an important stake in his Association's welfare, a useful purpose is served by

The Kind of Members . . .

As to what *kind* of members MBA wants, remember there are three general classifications: *Regular, Limited* and *Associate.*

1. *REGULAR:* Naturally this group is the more important because it represents the bulk of the personnel, interests and activities which are the backbone of the Association. In this group are:

a. *Mortgage Bankers:* To qualify, a mortgage banker's principal business, or an important part of it, must be in originating, financing, closing, selling and servicing mortgage loans. He must have been in business two years. There are a great many fully-qualified mortgage bankers who are not members, who ought to be members and who would be if the proper representations were made to them.

b. *Life Insurance Companies:* Almost any life company, except for one just beginning business or one which, for some reason, has remained very small and has few mortgage investments, is a good prospect. And MBA wants and needs every life company member it can get.

c. *Banks, commercial and mutual savings:* The same holds for banks, almost any bank is a good prospect. We have a great deal to offer them that they can use and we can use every one of them we can secure. Banks are more and more interested in FHA and VA lending and need the specialized mortgage service which only MBA can provide.

d. *Fire and Casualty Companies:* This is another valuable classification. To qualify, companies must invest "a substantial portion of their assets in first liens on real estate."

e. *Abstract and Title Companies:* These are highly eligible and most welcome members and the same general provisions apply. Almost any abstract and title company is a good prospect, but a few are too small to justify membership in a national association.

f. *Trust Companies, Colleges, Public or Private Investment Funds, Pension Funds:* The same general qualifications apply for this

(next page)

Association Progress

MBA's growth has been substantial and sound but there is still some distance to travel to make it completely representative of mortgage lending and investing

By R. C. LARSON
Chairman, MBA Membership Committee

reminding him of the value of his own membership.

This year is MBA's 42nd. Through years of work contributed by thousands of members, it has become one of the great national trade associations, one whose views and opinions are respected in the councils of business, finance and government, a group with great prestige in the economic life of the nation. More could be said on that score which would further enhance the value of membership in the eyes of each member; but it would still constitute a part of the record that is behind us, it would still represent past accomplishment rather than present gain and future prospects.

And the present and the future are what we are all most vitally interested in—and particularly your Association's Membership Committee this year. MBA numbers among its more than 2,000 members the leading lending and investing institutions in every phase of the mortgage industry. But to progress further, to record even greater achievements for its industry, to show even more worthwhile accomplishments, it cannot pause in its growth.

R. C. Larson

To maintain its past record can mean only one thing—an even more representative group of members, an Association which even more completely represents the mortgage field. And that is where every member comes in because every member ought to regard himself as a member of a committee-of-the-whole to increase the value of his own membership. He can do that in no better way than by suggesting new and qualified mem-

. . . the Association Wants

group. Members such as these are highly desirable, can add greatly to the Association's progress and only in rare instances could one be found which would not qualify.

2. *LIMITED MEMBERS:* This classification of MBA membership is slightly different from regular membership and the five divisions are:

a. Persons, firms or corporations eligible for regular membership but who do not wish to have the right to vote or hold office.

b. Persons, firms or corporations whose business is that of mortgage broker, the term "mortgage broker" being defined as one who does not service mortgage loans but who acts as broker between originating mortgage loan correspondents and investors in mortgages for the sale of mortgage loans on properties located in various geographical areas of the United States.

c. Fire and casualty insurance companies which do not invest a substantial portion of their assets in first liens on real estate but which are in accord with the aims, objectives and standards of the Mortgage Bankers Association of America.

d. Abstract and title companies which do not invest a substantial portion of their assets in first liens on real estate but which are in accord with the aims, objectives and standards of the Mortgage Bankers Association of America.

e. Trust companies, colleges, public or private investment funds, pension funds, and similar institutions which do not invest a substantial portion of their assets in first liens on real estate but which are in accord with the aims, objectives and standards of the Mortgage Bankers Association of America.

3. *ASSOCIATE MEMBERS:* Branch managers, attorneys, public accountants, officers, and employees of members holding regular membership.

bers and working actively to bring them into MBA.

So, if you will regard it as that, this is a request to you for help in increasing the value of your own membership by making your Association more valuable—in the one way you can do so: by making it stronger and more representative.

Now, just what kind of members do we want, what measuring sticks do we use, how do we qualify them? A few might say "the Association is too big now, the meetings are so crowded you can't see anyone . . ." etc., etc. Personally, I can sympathize with a part of that point of view, but the hard, cold fact is that almost nothing successful has ever reached a stage of development with someone coming forward to say "this is where we stop." We have to continue to expand because, in this field as in any other, there are certain losses (i.e., by mergers, acquisitions, change of policies, etc.) which must be replaced. But what we are seeking in MBA isn't so much *numbers* but the most *representative* group of lenders and investors.

What can you, as a member, do to help MBA become an even better organization, to increase the value of your own membership? Your Membership Committee suggests that you give careful thought to companies which can qualify, in any of the various classifications described in the qualifications section on pages 46-47. List them in the boxed form shown in space below, tear it out and mail to me. Then our Committee will begin an intensive solicitation of these companies. We will place them on the MBA mailing list for a period of time to receive the same services which members receive. If, during this period, any of the regular MBA meetings are in session, they will be at liberty to attend (otherwise these meetings are usually limited to members). A word of caution: Always advise in advance of a prospect's name before anything is done. In some instances, a prospect may have been proposed for membership in the past and rejected.

In short, we will do everything we can to present to your prospects the advantages of MBA membership, the prestige accruing to their institution from affiliation with the recognized trade organization in the mortgage field.

Will you help? Will you help your trade Association to become a more influential and better trade organization? All we ask now is suggestions for qualified members and your assistance in getting the facts to them.

FOR THE MEMBERSHIP COMMITTEE

I think that the following are qualified for MBA membership:

Firm____________________
Address____________________
City__________ State__________
Man to contact:____________________
Comments____________________

Firm____________________
Address____________________
City__________ State__________
Man to contact:____________________
Comments____________________

Firm____________________
Address____________________
City__________ State__________
Man to contact:____________________
Comments____________________

Tear this out and mail to Membership Chairman R. C. Larson, Executive Vice President, C. A. Larson Investment Co., 348 North Camden Drive, Beverly Hills, California.

PERSONNEL

In answering advertisements in this column, address letters to box number shown in care of the Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.

Mortgagee in Southeast servicing \$45,000,000 wants best man available to open branch office. Write Box 330.

Large Eastern insurance company has opening for capable mortgage loan executive in the 35 to 45 year age bracket. Must be well experienced in conventional lending practices particularly income producing properties. Excellent working conditions and good prospect for future advancement. Salary open to negotiation. Write Box 339.

Experienced mortgage loan officer, acquainted with New York savings banks, for well established South Florida company, to solicit developers and market GI and FHA loans. Salary \$8,000-\$10,000. Reply must state age, experience, past earnings and references. Write Box 340.

HIGH-CALIBER EXECUTIVE AVAILABLE

Mature and personable. Capable of assuming heavy responsibilities with capacity for negotiating large conventional loans and thorough knowledge of FHA, VA and construction-payout departments. St. Louis, Missouri only. Write Box 343.

LOAN OFFICER WANTED

Rapidly growing independent bank in Los Angeles wants an experienced commercial and real estate loan officer. Give all details and send photo to Box 344.

MORTGAGE MAN

For staff position with multi-plant prefabricated home manufacturer. Must be aggressive, 30 to 40 years old, with extensive experience in originating, closing and selling FHA mortgages. Contact with major insurance companies and other lenders highly desirable. Travel required. Salary commensurate with experience and ability. Write, stating qualifications, to Box 345.

OBSOLESCENCE

(Continued from page 31)

are still available for new building). The difficulty of finding sufficient lots for economical building in areas where city services are available is one of the strong factors in favor of the market for older homes. Those homes that are adaptable to air-conditioning and reasonable remodeling of the wiring, plumbing and heating equipment will probably gain popularity in the next few years.

Appraiser's Responsibility

And so the appraiser who is working hand in hand with the mortgage lender is faced with the dilemma of when he should reflect definite trends. There are a few appraisers who think it is their duty to look into the future, making the adjustments in the value conclusion at the present time. Most of us think it is our job to measure what the typical buyer is doing—right at the date of our appraisal. Certainly it is also the duty of the appraiser to know what changes seem to be taking place and to call those probable changes to the attention of the loan underwriter. The thin margin of equity in the majority of today's home purchases does not allow for much error in judging the immediate future; it allows very little margin for the long-range future even under normal conditions. There is no room in today's mortgage structure for blunders in location, design or quantity of houses built. *Advance notice of obsolescence is an essential safeguard to a sound mortgage portfolio.*

This all means that the appraiser must take greater responsibility. He must have access to more information, and more time to use it. The appraisal-apprentice who is trained to make 15 or 20 inspections (plus driving time) each day can only report the barest rudiments of physical facts. He will not have the time to drive around two or three blocks if he sees some evidence of poor maintenance or vacancy in the subject block. He may even miss construction faults. He surely will not be able to judge the room arrangement nor will he be able to get information about the neighborhood.

Experience gives us countless clues on sources of information and methods of examination. For instance, trim is often a good criterion of the quality of construction. But even an experienced man needs time to function properly. The author can make a residential inspection in 30 minutes with a stenographer taking notes. The time increases to 45 minutes if the details are written in longhand. Figuring and analysis at the office takes still more time. Seven or eight routine appraisals a day are maximum at top efficiency.

Not an Exact Science

The average is cut down substantially by the problem cases. One that netted a $17.50 VA appraisal fee took a full day and a half of appraisal time. It was a home built three years ago for $34,000 on a $5,000 lot. The abstract showed five or six sheets of restrictive covenants! Chief among these was one setting up a property owners' committee whose approval would be required for the subsequent purchasers. This restriction might seem attractive to a buyer who wanted to live in this protected neighborhood for years to come. It posed a problem for a mortgage lender, however, who might find himself precluded from liquidating a repossessed property. That impediment didn't take the extra time, however. In addition, this house was a monstrosity created in the name of contemporary architecture. There was no stairway from the house to the basement—and no place to put one. The only entrance to the basement was through the overhead basement garage door. This was the best example of ill-planned confusion in the author's 40 years of real estate experience. There was a small amount of physical deterioration in the three years' time, but the greater proportion of the $13,000 depreciation was charged for functional obsolescence (about two-thirds) and the balance for economic obsolescence, because of the restrictions. How the proportions are measured is impossible to explain, except in terms of experience with many, many buyers over a period of years.

There is nothing exact about the opinion that results from such experience. It must be adapted from one set of circumstances to another. Whether certain conditions still apply while others change is a constant question. The better the appraiser, the more likely he is to check back later to see what transpired after his appraisal. If there is a discrepancy, he tries to find a reason—or a mistake on his part. He learns not only from his own activities, but from the discussions he has with other appraisers who may call him at any time of the day—or at home while he is watching a favorite TV program. There are many things an appraiser can't find out, but the myriad that he does know can help the mortgage executive to make a more intelligent decision which will be of benefit to everyone concerned—whether it results in a loan being made or one being turned down!

IT IS in the PUBLIC INTEREST *for* M

EVERY mortgage banker will agree with the thought expressed in the title of this article—but is every mortgage banker so fully convinced of the soundness of his role in the lending-and-insurance operation that he will work actively to preserve his position in it? The insurance mortgage bankers write is a sound, logical and reasonable business operation. Mortgage bankers have been doing it well. Those they serve have benefited. The public interest has been served. It has been profitable business.

And right there lies the cause of many problems—profits. It is becoming increasingly difficult to convince some people that mortgage bankers operate in the public interest in insurance operations. I do not minimize the importance of profits; instead, I emphasize the decreased servicing cost through increased efficiency when the mortgage company writes the insurance. Mortgage companies should reassure themselves—as well as their investors—that they do operate in the public interest.

It would be a great economic waste if mortgage companies didn't write insurance, because every step of their work would have to be duplicated. They cannot delegate responsibility for any part of their job. The writing of insurance has always been a part of the mortgage business. And separation—by legislation—of these two functions is uneconomic. A mortgage company without any conflict of interest is better equipped to do the job than anyone else—in fact, they are compelled to do the job better. Their entire security depends on it.

To be specific:

» **APPRAISALS:** Our firm, for instance, has just completed an exhaustive physical appraisal, which we know how to do because it is the essence of good mortgage lending. It is doubtful whether any broker or agent could afford to spend the time for this purpose—few, in fact, would have the capacity to do so. A mortgage company is in the best position to determine accurately the proper amount of insurance which should be carried. Usually, its stake in the property is as great or greater than that of the owner.

CUSTODY AND RECORDS: No one denies that the mortgage company must have custody of all policies, or that the mortgage company must examine all of them to see that they are correctly written with proper mortgage clauses. Because the mortgage company knows its investors' requirements, it saves time, confusion and money if the mortgage company does this itself.

How many have made a cost study showing the expense of handling or correcting one insurance policy? There are some 19 steps involved in the substitution of one policy for another. It may surprise many, but every step is necessary.

LOSS ADJUSTMENTS: Every owner must report a loss to the mortgage banker who, in turn, must agree to any settlement. Then, the mortgage banker must examine the property to determine whether the adjustment is adequate to restore the property or whether the owner must raise the money to do so. A common interest will compel the mortgage banker to support the owner in his claim. No other agent could have the same compelling reason to obtain a fair settlement. After loss has been adjusted, the mortgage banker must disburse the funds as work progresses. He sees to it that no mechanics liens can attach—and that no part of the work or responsibility can be delegated.

Just how important is this insurance business? Every mortgage banker with an insurance department (that includes most mortgage companies) knows how much revenue comes from it—yet this is only one measure of its importance. Our firm, for example, is convinced that if we didn't write the majority of policies in connection with our residential loans, we would of necessity have to double the employees in our insurance department and greatly increase our servicing cost.

As I've already stated, there are a great many steps involved in changing even one policy in midstream. The errors listed below are only a few examples of what may occur when an independent broker, a brother-in-law or some other close relative writes a policy:

» The wrong mortgage clause or no mortgage clause at all. Even a smart broker doesn't know the special mortgage clause desired by each different investor.

» Wrong address. Rather frequently mortgage companies are handed policies with the wrong description.

» Certificates are furnished instead of original policies. Frequently, a broker erroneously advises an owner to keep the policy or gives him only enough to cover the loan.

» Independent broker does not have a physical appraisal and fails to cover all parts of property, or errs in the proper amount.

» Loss adjustments can drive you crazy. Few brokers know how to handle them, or the peculiar steps required by our investors. Too few know costs of repair, nor are they concerned about restoring our investments. There is unnecessary delay in obtaining the money and the repairs.

» To correct some of these difficulties, it takes virtually an act of Congress. Our company writes, we telephone, we send messengers—and the broker acts annoyed because we are so technical; he doesn't hurry to rectify the error. All of this means lost money—it means wasted overhead and delay in delivering loans. And it means even greater cost to a borrower who, eventually, must pay for all of it.

for MORTGAGE BANKERS *to Write Insurance*

***By* GEORGE H. DOVENMUEHLE**
Chairman, MBA Insurance Committee

One of the important segments of the mortgage business—the writing of insurance—is in danger. The campaign to curtail and even prohibit mortgage bankers from doing what they have always done efficiently and well slowly gains momentum. The critics do not have a completely defensible case but might not the bill of particulars which they cite result, in some degree, from errors which we ourselves have made in the past? Mr. Dovenmuehle, who heads MBA's active insurance committee this year, thinks we have been at fault in some respects but that the arguments which count in this matter are heavily on our side. What is at stake here is something vitally important to practically every mortgage banker. He ought to be fully aware of the challenge to his business and work actively to preserve it.

Certainly, all mortgage bankers can agree that "It is in the Public Interest for Mortgage Bankers to Write Insurance." Why, then, have 21 states passed legislation or licensing laws which, in varying degrees, prevent or restrict mortgage bankers in the writing of insurance?

Naturally, the independent brokers or agents think they see a lucrative field and they would like to possess it.

Through good organization, they have at least made a start in that direction. But mortgage bankers, too, have been at fault. They have permitted these restrictions. Why? Because:

1. Mortgage bankers have not protested effectively in the various states.
2. In many offices, insurance has been a mere side line, poorly done and neglected.
3. A few uninformed mortgage bankers have short-rated to the borrower's disadvantage.
4. Through neglect, mortgage companies have sometimes failed to notify borrowers of changes in rates; nor have they given borrowers the best possible coverage.
5. Mortgage bankers don't know insurance commissioners and have not joined broker organizations.
6. Mortgage companies haven't publicized their advantages to the world.
7. But, most of all, I believe, the troubles have been due to the so-called "coercion" clauses, so common in mortgage practice. Organized agents believe mortgage companies have a bonanza which they can get their hands on. Actually, of course, they can't. Borrowers usually prefer to do business with a lender regardless of agreements.

Many states have taken some action which, in effect, either prevents mortgage bankers from writing insurance entirely or severely restricts them.

I have, I think, shown that where mortgage bankers write insurance it is more economical and more efficient, with better protection for borrower as well as investor. Therefore, it is in the public interest for mortgage bankers to do so. How, then, shall mortgage bankers act to preserve their rights and further the public interest? Let me summarize with the following suggestions:

1. Protest vigorously any legislation on a state or national level which tends to infringe upon the right to place insurance.

2. Maintain an efficient insurance department. Staff it with competent and trained people—don't ever let it become a "stepchild."

3. Return all furnished policies containing errors to the borrower—make him go to the trouble of correcting those errors, so that he understands why the cost is higher. Consider the possibility of making small, but justifiable, charges to correct such errors—if the mortgage company has to make the corrections.

4. Consider the advantages of a separate insurance department. There is a small tax advantage; it may coincide more nearly with state regulations. Mortgage companies may then be accepted more readily by other brokers and agents. If so, mortgage companies should join their associations and work with them as friends.

5. Do a far better job of selling—especially to the borrower—and don't overlook the investors. Do it in person, do it with attractive folders, marshal all the arguments to prove that it is in their interest.

6. Write insurance pursuant to a voluntary authority from a borrower rather than a restrictive agreement.

7. Finally, be competitive as to rates. Mortgage companies don't truly write in the public interest if a borrower is able to obtain similar insurance with comparable service at lower rates. I realize that this is frequently beyond control, but no contract or legislation will preserve this business for mortgage bankers unless the insurance is kept attractive throughout the entire life of the loan.

George W. DeFranceaux, executive vice president of Frederick W. Berens Sales, Inc. and president, Frederick W. Berens, Inc. announced the appointment of **Curt C. Mack,** former assistant commissioner of FHA in charge of mortgage underwriting, to be a senior vice president of both corporations. Mr. Mack has assumed charge of the New York City office.

Lincoln Savings Bank, of Brooklyn, announced the election of **Michael J. Burke** as executive vice president.

Mr. Burke has been continuously associated with financial institutions engaged in the mortgage business in the New York area since 1926. Before coming to Lincoln in 1949 as vice president and mortgage officer, he was a vice president of the Manufacturers Trust Co., in charge of its real estate and mortgage department. In 1953, the Lincoln's board of trustees elected Mr. Burke a trustee.

Raymond Martin and **John O'Connor** have become associated with General Mortgage Investments, Inc., Chicago. Martin, who was with Pacific Mutual Life, will be in charge of construction loan payouts. O'Connor will be responsible for loan closings.

Southern Trust & Mortgage Co. is moving its offices from 1302 Main Street, Dallas to enlarged quarters in the new Adolphus Tower at 1412 Main Street. After a new building has been constructed on the site of its present quarters, the company will return to their former location.

SOUTHERN CALIFORNIA MBA ELECTS: E. W. Muhsfeld, Insurance Funds Mortgage Co., was elected president of the Southern California MBA, succeeding Urban K. Wilde, Coldwell, Banker & Company. New officers of the association, who will be holding office during the time of MBA's 42nd annual Convention, are, standing left to right, Floyd B. Cerini, Land Title Insurance Co., chairman, legislative Committee, Mr. Wilde, Hal G. Whittle, H. F. Whittle Investment Company, John J. Lyman, Dwyer-Curlett & Co., Gordon Calder, The Alison Company, and Jack R. Smith, National Life Insurance Company, directors.

Seated, Gordon Stimson, Wallace Moir Co., vice president, Mr. Muhsfeld, and Vaugh J. Cook, Beverly Hills Securities Co., secretary-treasurer.

Directors not shown are Frank Ely, Western Mortgage Corporation and Warren P. Tenney, Union Bank and Trust Co. of Los Angeles.

Ernest J. Rourke has joined J. I. Kislak Mortgage Corp. of Florida, Miami, to direct sales and builder relations activities. **D. Joseph Snyder,** formerly vice president of Fidelity Title Co. in Miami, was appointed to head the closing department.

L. Steven Snyder was placed in charge of the processing department. He was formerly associated with several Miami mortgage firms as mortgage loan officer.

FHA Commissioner Norman P. Mason said "FHA is an important part of an amazing story which is now being written in terms of better homes for Floridians" at a dinner sponsored by the Greater Miami MBA.

C. B. Spofford, Jr., FHA director in Miami, FHA Commissioner Mason and R. B. Roberts, III, president, Greater Miami MBA.

Mason said "Nationally, FHA financing of older homes is running neck and neck with financing for new structures. However, two out of every three applications for FHA loans in the Miami area today are for new homes.

"The present situation calls not for apprehension and alarm but for ardent applause."

Charlotte, N. C. MBA Elects Officers

W. R. Cuthbertson, president, City Savings Bank, was elected president of the Charlotte, N. C. MBA to succeed Ike C. Lowe. Charles B. Rich, vice president, Wachovia Bank & Trust Co., was elected vice president and Clyde Cross, City Savings Bank, was elected secretary-treasurer.

New directors for the year are T. G. Barbour, Home Federal Savings and Loan Association, Mr. Cuthbertson, Ike C. Lowe, McDonald Mortgage Company, Inc., Lex Marsh, Marsh Land Company and N. G. Speir, N. G. Speir, Inc.

Above, seated left to right, Mr. Rich, Mr. Cuthbertson and Mr. Cross. Standing left to right, Mr. Marsh, Mr. Lowe, Mr. Barbour and Mr. Speir.

Chicago MBA Looks at Operating Problems

Chicago MBA members, at their recent meeting, sought the answer to the eternal question, Can We Make Our Mortgage Operations More Profitable? A panel group tackled questions such as:

When does putting a loan on your books become unprofitable?

How do you figure overhead?

Is the cost of out-of-town business profitable?

What happens to loan inquiries in your office?

How much does servicing cost?

Solicitors vs. finders fees?

These and similar questions getting down to the basic essentials of the business occupied the attention of the group moderated by Howard E. Green, president, Great Lakes Mortgage Corporation, and included Delmar R. Beaumont, president, D. R. Beaumont and Company; William I. De Huszar, treasurer, Dovenmuehle, Inc.; Joseph H. Grayson, vice president, The South East National Bank of Chicago; Robert H. Wilson, president, Percy Wilson Mortgage & Finance Corporation, and Murray Wolbach, Jr., vice president, Draper and Kramer, Inc.

Moir Speaks at Meet of the Tucson MBA

President Moir was the principal speaker of the Spring meeting of the Tucson MBA following an address he gave before members of the Los Angeles Society of Residential Appraisers the week before. Following that, he swung into a busy schedule covering other local MBAs over the country, first at Pebble Beach, Calif., before a joint meeting of the Southern California MBA and Northern California MBA looking into the possibility of a state-wide MBA. After that it was the Texas MBA annual Convention in Galveston, MBA's own Eastern Mortgage Conference in New York to be followed by an address before the Kansas City Real Estate Board May 6 and then a talk at the Land Title Association meeting in Coronado, California.

New MBA Organized in Lubbock, Texas

Another local mortgage bankers association has been organized, this time the Lubbock, Texas MBA. First president is R. Miller Hicks, Investors, Inc. and vice president is Hiram Jordan, Jr., Lubbock National Bank, Secretary treasurer is Guy C. Eagan, McFarland-Maisen Co. Directors are Lée York, First National Bank, Homer Roper, Great Southern Life Insurance Co., William R. Sewell, Citizens National Bank and J. L. Murfee, Jr., J. E. Murfee & Son.

Cary Whitehead, formerly assistant secretary of National Mortgage Company, Memphis, has been elected vice president of the firm. . . . **John L. Mylod,** president, Pacific National Fire Insurance Company, announced the election of **William L. Greenway** as vice president. Greenway has been associated with Pacific National in various capacities for 20 years. He will continue with headquarters at the Company's Eastern Department offices in Philadelphia.

Life Companies to Make More Loans in 1955

NEW mortgage loans made by the life companies totaled $521,000,000 in January, compared with $317,000,000 a year ago, according to the Institute of Life Insurance. However, the net increase in mortgage holdings in January was only $295,000,000.

Unless there is a curtailment in new construction in the months ahead it appears certain that the companies will be called upon for more mortgage loans in 1955 than in 1954, when a record volume of $5,333,000,000 was loaned under mortgages by the life companies.

But the Institute is cautious.

"It is important for both lenders and borrowers, and particularly for the builders, to closely watch the general economic situation and keep both construction and mortgage financing on a sound basis," the Institute said. "With a larger share of our population now owning their own homes than has been true since statistics have been kept, the stability and soundness of this important part of family finances is of greater significance than ever before. It is true that a safety element exists today which did not exist a generation ago, in that practically all mortgages are amortizing and on a budget basis, but at the same time care has to be taken lest too great a mortgage load be undertaken by families without adequate resources."

Nearly one-third of all accumulated life insurance dollars are now on loan to property owners under mortgages.

In the past five years, more than $23,500,000,000 of real estate mortgages have either been initiated or purchased by the country's life companies and at the start of this year, they had $25,928,000,000 on loan under mortgages.

"While endeavoring to assist in holding mortgage financing to a sound basis in the years ahead, the life insurance companies will continue to be an important source of mortgage money needed to maintain housing up to the needs of the country," the Institute said. "The war shortages have been made up in most communities by now, but there will be a continued demand for new housing to meet the formation of new families, obsolescence of old housing and the shifts in population concentrations. Also, the increased rate of refinancing due to the high frequency of family moving will be a factor in the continued demand for mortgage money. Some 30,000,000 families move annually and many of these are home owners who sell and re-buy in the process of changing residence."

With practically all mortgages now in force on an amortizing basis, the natural reduction in the mortgage portfolio each year is sizeable, according to the Institute. Resales and refinancings also increase the aggregate of mortgage redemptions. In 1954, the life companies reported a total of $2,680,000,000 of sales, amortization and redemptions in a portfolio which totaled $23,275,000,000 at the start of the year. As the portfolio increases, the total of these funds requiring reinvestment will increase. In addition, the life companies put into this financing a portion of the new capital accumulated for policyholders. Last year the equivalent of nearly half of the year's new capital funds made available by the business was added to the refinancing funds to meet the year's mortgage demand.

The life companies have had an excellent experience under their mortgage portfolio. Although more than 2,500,000 individual properties are covered by these real estate loans, the aggregate amount of real estate held under foreclosure at the end of last year was less than one-tenth of 1 per cent of the total amount on loan under mortgages.

The earning rate on mortgages has improved in the past two or three years, with practically half of the improvement coming from reduction in the costs of handling the mortgages rather than from improved interest rates. While the net yield on mortgages has risen in the past few years, at the end of 1953, the last year for which figures exist, it was still less than at the end of World War II.

Debts—Everybody's Add Up to $700 Billion

THE record-breaking growth of debt over the last decade and a half, which started with the federal government during World War II and was later paced by the private sector of the economy, has reached a new landmark—the $700 billion level.

Preliminary figures indicate that gross public and private debt combined rose by approximately $26 billion in 1954 to an estimated total of $709 billion at year-end. The 1954 debt figure was $246 billion or 53 per cent above the 1945 total, and $493 billion or 228 per cent greater than aggregate public and private borrowing at the end of 1940.

Both the size of the debt and the rapidity with which it has grown have raised the natural question of prudence, just how much of a debt burden the country can bear without affecting economic stability or the ultimate soundness of the dollar. Such questions are taking on added force since, with the return of a competitive economy, encouragement of debt is being used as an economic stimulus by the easing of credit terms for the purchase of all kinds of goods and for housing.

The growth of debt in the private sector of the economy in recent years has had the basis of the tremendous acquisition of assets by both business and individuals, and has also been accompanied by a high level of personal savings. For example, business expenditures for plant and equipment alone add up to around $213 billion for the nine years from 1946 through 1954. Close to $90 billion of new homes have also been built in this period, along with tens of billions of dollars of other construction. Consumer purchases of automobiles and durable goods have been at record levels. At the same time, personal savings have been maintained at high levels, as indicated by peak purchases of life insurance and the growth of other thrift institutions.

The expansion in personal and in business assets and in savings has been far greater than the growth of private debt. Nonetheless, the burden is great. Right now the total debt in the economy figures out at around $4,300 for every person in the population, and personal debt alone is currently the equivalent of about $800 per capita.

All Kinds of Debt Up

All major classifications of debt increased in 1954. The biggest gains were in personal debt and in state and local borrowing, but the gross federal debt rose about $4 billion to a new high of approximately $293 billion, and corporate debt was up nearly $2 billion to an estimated $213 billion. Gross federal debt includes amounts owed by U. S. agencies and certain categories of debt not subject to the statutory limit.

The largest gain last year was in the classification of individual and non-corporate debt, which increased around $15 billion to an estimated total of $165 billion. The leading factor in this expansion was home mortgages, which were up more than $9 billion for the year to a total of approximately $75 billion at the year-end. The home mortgage increase in 1954 was the largest annual expansion on record, and some of it reflects the little-or-no-down-payment home loans made possible by the 1954 housing legislation.

For the period from the end of World War II through 1954, aggregate individual and noncorporate debt increased by approximately $110 billion or 200 per cent. Home mortgages and consumer credit alone contributed approximately $70 billion of this increase, or more than three-fifths.

Gross corporate debt at the end of last year was approximately $113 billion above the total in 1945, but the rate of growth slowed down noticeably in 1954. The rise of less than $2 billion for the year compares with one of $9 billion the year before and with a jump of $27 billion in 1949.

The need to build more schools, highways and other essential services for our expanding population brought a $5 billion rise in state and local debt in 1954. This was the largest annual increase on record and brought the total to an estimated $38 billion at the year-end.

The federal debt continues to be the biggest single element in the country's debt picture, and alone represented more than two-fifths of the total at the end of 1954. A long succession of unbalanced budgets is the reason. The federal establishment has run a surplus in only three out of the last 25 years, and its debt now is five and one-half times greater than it was in 1940.

» IT'S HERE: The electronic age has reached the mortgage servicing field. Univac 120, a junior grade model of the machine that has predicted election results from partial returns and found answers too tough for the human mind to solve, is now at work in the Western Savings Fund Society office in Philadelphia.

The new machine will be used for both savings and mortgage accounting.

According to representatives of Remington-Rand, who engineered the system to fit Western Saving Fund's needs, when a mortgage payment is made at the mortgage teller's window, the amount of the payment is automatically punched on a tape. The tape then feeds the data to a machine which punches the information on a card.

These transaction cards are then automatically listed to balance with mortgage receipts for the day and are collated with cards showing prior balances. Prior balance cards and current transaction cards are processed simultaneously through Univac, which automatically picks up the unpaid mortgage balances, calculates breakdown of the payments as to interest, principal and escrow, computes the new balances and records them on new balance cards. The new balance cards then go through an automatic "line finding poster interpreter," which posts them to the mortgage ledger cards at the rate of 45 postings a minute.

» TO HELP ON URBAN RENEWAL: A 12-man industry advisory committee has been named by FHA Commissioner Norman P. Mason to explore ways to make the government's urban renewal program more effective. MBA is liberally represented and here is the group at the first meeting: seated left to right: Walter S. Dayton, Build America Better Council, NAREB; Arthur P. Wilcox and John C. Williamson, NAREB Realtors Washington Committee.

Alfred W. Jarchow, director, appraisal and mortgage risk division, FHA; Frank J. Meistrell, general counsel, FHA; Mr. Mason; Charles E. Sigety, deputy commissioner, FHA.

David C. Slipher, director, field service, American Council to Improve Our Neighborhoods, Inc.; Joseph B. McGrath, legislative director, NAHB.

Standing left to right: Miles L. Colean, Consulting Economist, MBA; Charles P. Stewart, NAREB; Nathaniel S. Keith, housing consultant, Washington, D. C.

W. Beverley Mason, urban renewal officer, FHA; Charles A. Bowser, assistant commissioner for technical standards, FHA; William A. Clarke, MBA; Samuel E. Neel, general counsel, MBA.

Allan F. Thornton, director, research and statistics division, FHA; James W. Rouse, MBA; William S. Harps, Washington Association of Real Estate Brokers.

» DEVELOPMENT OF THE MONTH: Cleveland's five largest banks are planning to set up a revolving fund to finance mortgages of $185,000,000 to $200,000,000 for construction of housing in all of the city's slum areas marked for redevelopment.

The banks have made definite commitments to provide mortgage money totaling more than $4,000,000 for the construction of 480 dwelling units in one project.

Whether the banking group will be able to take on the larger job will depend on arrangements that can be made with FHA.

The participating banks are the Cleveland Trust Co., Central National Bank, National City Bank, Society for Savings and Union Bank of Commerce. The extent of participation by each of the institutions will be based on its deposits.

The Cleveland Trust will act as mortgagee for the group in financing the initial project.

The Cleveland banks will be unable to finance all of the $185,000,000 to $200,000,000 in mortgages, but will have to sell some of the paper to Eastern lending institutions. The latter, however, will not buy the mortgages at the allowable 4¼ per cent interest.

CHARLES R. COX

Portrait by Fabian Bachrach

"I urge every executive..."

"I know of no better method for each citizen to protect the American way of life than by building his own economic security and by helping his Government to keep financially sound. Both these results can be accomplished through the Payroll Savings Plan. I urge every executive in the nation to give this Plan his active and vigorous support."

CHARLES R. COX, *President, Kennecott Copper Corporation*

With the active cooperation of Mr. Cox, Kennecott conducted a person-to-person canvass which put a Payroll Savings Application in the hands of *every* one of Kennecott's 20,000 employees. The men and women of Kennecott did the rest. Country-wide participation in Kennecott's Payroll Plan rose from 24% to 52%.

Your State Director, U. S. Treasury Department, is ready to help you install a Payroll Savings Plan, or show you how to build participation in an existing Plan through a simple person-to-person canvass. Write today to Savings Bonds Division, U. S. Treasury Department, Washington, D. C.

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